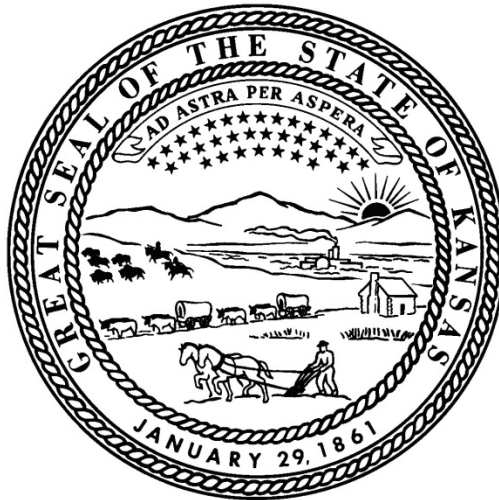


**STATE OF KANSAS**  
**Department of Administration**  
**Office of the Chief Financial Officer**



**COMPREHENSIVE**  
**ANNUAL**  
**FINANCIAL**  
**REPORT**

July 1, 2015 to June 30, 2016

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**DeAnn Hill, CPA**  
**Office of the Chief Financial Officer**



# **STATE OF KANSAS**

**Department of  
Administration**

***DeAnn Hill, CPA***  
**Office of the Chief Financial Officer**

State of Kansas  
**Fiscal Year 2016 Financial Report**  
June 30, 2016

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# INTRODUCTION

December 7, 2016

The Honorable Sam Brownback, Governor of the State of Kansas  
Members of the Legislature and  
Citizens of the State of Kansas:

It is my pleasure to submit to you the 62nd Annual Financial Report of the State of Kansas for the fiscal year ended June 30, 2016, as provided by Kansas Statutes Annotated (K.S.A.) 75-3735. This Comprehensive Annual Financial Report (CAFR) has been prepared in conformance with generally accepted accounting principles (GAAP). The objective is to provide a clear picture of the government as a single, unified entity as well as providing traditional fund based financial statements.

This report is presented in three sections. The Introductory Section includes this transmittal letter, the organizational chart and a listing of selected officials. The Financial Section includes the independent auditors' report, Management's Discussion and Analysis, the basic Financial Statements and Notes, the Required Supplementary Information, and Other Supplementary Information. The Statistical Section includes unaudited tables and financial trend information.

This report is prepared by the Department of Administration, Office of the Chief Financial Officer. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the State government and this office. The enclosed information is accurate in all material respects and is reported to present fairly the financial position and activities of the State of Kansas. All necessary disclosures to enable the reader to understand the State's financial activities have been included.

The State's financial statements have been audited by CliftonLarsonAllen LLP. The goal of the independent audit was to provide reasonable assurance that the financial statements of the State of Kansas for the fiscal year ended June 30, 2016, are free of material misstatement. This independent audit was part of the federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards here also require the auditor to report on the State of Kansas' internal controls and compliance with legal requirements. A copy of the separately issued Single Audit Report can be obtained from the Legislative Division of Post Audit.

## **PROFILE OF THE GOVERNMENT**

The State government comprises three branches: the Executive Branch, with the Governor as chief executive; the Legislative Branch, consisting of a Senate of 40 members and a House of Representatives of 125 members; and the Judicial Branch, which includes the Supreme Court, the Appeals Court and the District Courts. The State provides a full range of services including education, safety, social services, recreation and transportation. The budget serves as the foundation of the State's financial planning and control. On or before October 1 of even-numbered years, agencies are required to submit biennial budget estimates for the next two fiscal years to the Division of Budget. These estimates are used in preparing the Governor's budget report. On or before the eighth calendar day of each regular legislative session, the Governor is required to submit the budget report to the Legislature. However, in the case of the regular legislative session immediately following the election of a governor, who was elected to the Office of Governor for the first time, that governor must submit the budget report to the Legislature on or before the 21<sup>st</sup> calendar day of that regular session.

## **FINANCIAL INFORMATION**

Kansas has a centrally maintained computerized double-entry accounting system. Management is responsible for establishing and maintaining an internal control structure to ensure that government assets are protected from loss, theft or misuse, and that adequate data is compiled to prepare meaningful financial statements. Internal accounting controls have

been implemented for reasonable, but not absolute, assurance for safeguarding assets and accurately recording financial transactions. "Reasonable assurance" is based upon the premise that: (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of cost and benefits requires estimates and judgments by management. As a recipient of federal financial assistance, the State is also responsible for implementing internal controls for compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by management and the internal audit staff of specific agencies of the government but not statewide.

The State also maintains budgetary restrictions and controls, which are imposed through annual appropriations and limitations, approved by the Legislature. Annual appropriated budgets are adopted for the State General Fund and certain Special Revenue, Capital Project, Enterprise, Internal Service and Trust and Agency funds. The level of budgetary control in the central accounting system is usually established by agency, fund and budget unit. Budgetary control is maintained by mechanisms in the accounting system, which prevents expenditures in excess of appropriations or limitations and/or available cash and purchase orders in excess of appropriations or limitations. Purchase orders are reported as expenditures for budgetary purposes and restricted fund balances in the financial statements included in this report.

## **CASH MANAGEMENT**

On a daily basis, the State monitors receipts to, and expenditures out of, the State Treasury. It also employs cash flow tools and techniques that maximize revenues without incurring undue risk. The State invests idle funds to match anticipated cash flow needs by using government securities, collateralized bank deposits, and high grade commercial paper to provide safety, liquidity, and yield, in that order.

The State maintains investments in addition to idle moneys. Authorized agencies may make investments independently of the State Treasury pooled cash. Generally the Pooled Money Investment Board (PMIB) acts as agent for these investments. Certain funds, such as Kansas Public Employees Retirement System and the Unemployment Insurance Fund, are statutorily exempted from PMIB oversight. Deposits in the Municipal Investment Pool, an investment option established by the 1992 legislature for local governments, are also invested by the PMIB.

## **RISK MANAGEMENT**

The State maintains a combination of commercial insurance and self-insurance to cover the risk of losses to which it may be exposed. This is accomplished through risk management and various outside entity commercial insurance providers. It is the policy of the State to cover the risk of certain losses to which it may be exposed through risk management activities. In general, the State is self-insured for certain health care claims (two of the five medical health plan options, prescription drug and dental), State employee workers' compensation, long-term disability, tort liability, personal property, and real estate property losses up to the applicable deductibles (except where separate coverage is required by bond covenant). The State has commercial vehicle liability coverage on all vehicles with \$500,000 deductibles and a statewide commercial policy on personal and real property with \$5,000,000 deductibles (except where separate coverage is required by bond covenant).

Risk is managed by positively addressing various benefits and liabilities through review, legislation and administration to assure that claims are promptly and correctly adjudicated and that appropriate and fair benefits and liabilities are reflected in the statutes and regulations. Where cost effective and appropriate, such as limiting the impact of a catastrophic occurrence to the State buildings, the State has limited its exposure through high deductible catastrophic loss insurance.

## **PENSION TRUST FUND OPERATIONS**

The Kansas Public Employees Retirement System is an umbrella organization administering three statewide retirement systems under one plan. These systems are Kansas Public Employee Retirement System, Kansas Police and Firemen's Retirement System and Kansas Retirement System for Judges. Further information on State participation in the retirement system can be found in the Notes to the Financial Statements located in the Financial Section.

## **ACKNOWLEDGEMENTS**

I wish to express my sincere thanks to the CFO Team. It is through their relentless efforts that this report was possible. I would also like to acknowledge the many other individuals in the State agencies, universities and component units. Their hard work and diligence in this process is much appreciated.

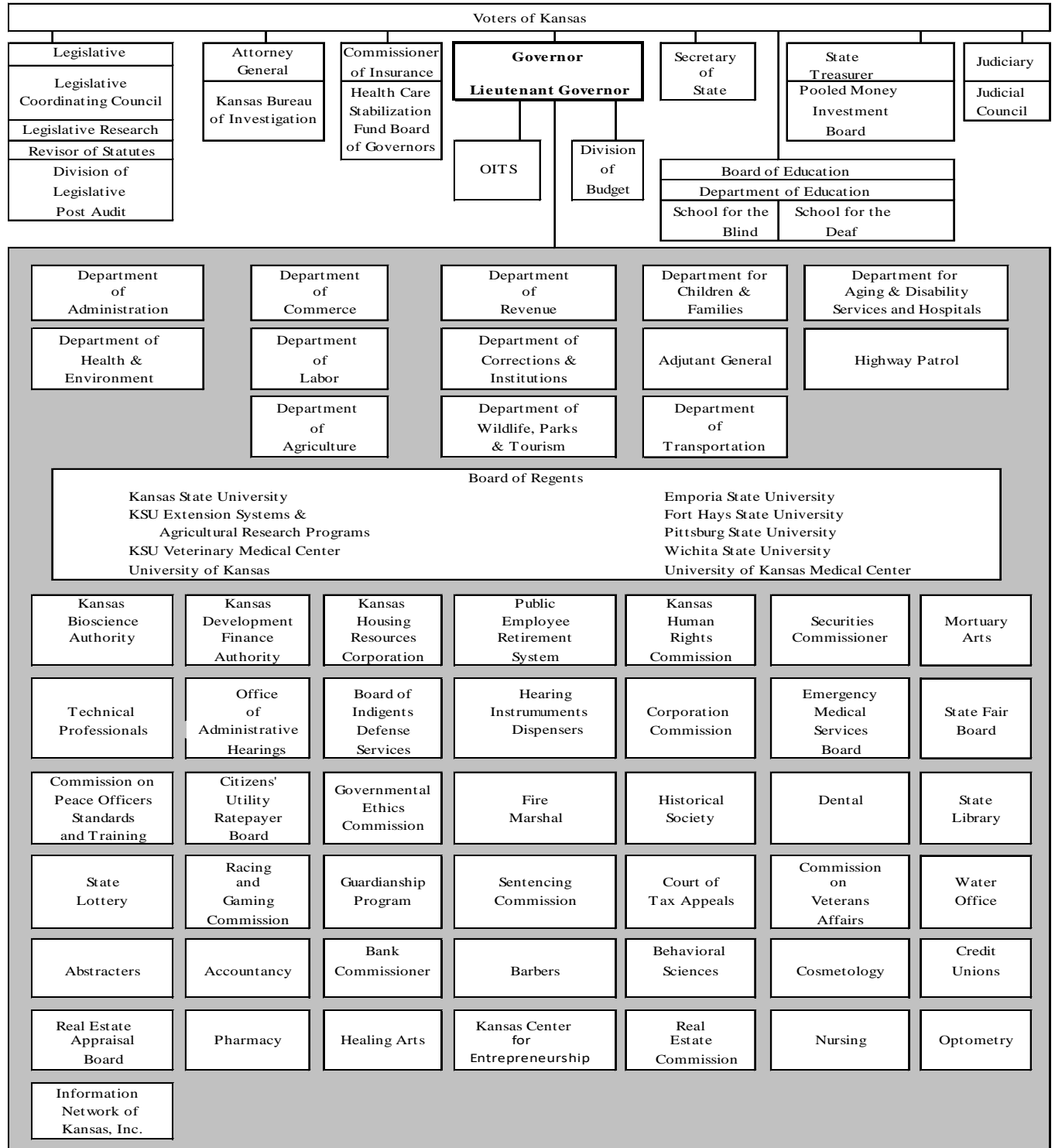


Sincerely,

A handwritten signature in dark ink, appearing to read "DeAnn Hill". The signature is written in a cursive style with a large initial "D" and a distinct "Hill" at the end.

DeAnn Hill, CPA  
Chief Financial Officer for the State of Kansas

State of Kansas  
June 30, 2016



**Executive Branch**

*Governor*  
Sam Brownback

*Lieutenant Governor*  
Jeff Colyer

*Secretary of State*  
Kris W. Kobach

*State Treasurer*  
Ron Estes

*Attorney General*  
Derek Schmidt

*Commissioner of  
Education*  
Randy Watson

*Commissioner of  
Insurance*  
Ken Selzer

**Legislative Branch**

*Speaker of the House of  
Representatives*  
Ray Merrick

*Speaker Pro Tempore of  
the House of  
Representatives*  
Peggy Mast

*President of the Senate*  
Susan Wagle

*Vice President of the  
Senate*  
Jeff King

*Chief Clerk of the House of  
Representatives*  
Susan W. Kannarr

*Secretary of Senate*  
Corey Carnahan

*Legislative Coordinating  
Council Chair*  
Sen. Susan Wagle

*Legislative Research  
Director*  
Raney Gilliland

**Judicial Branch**

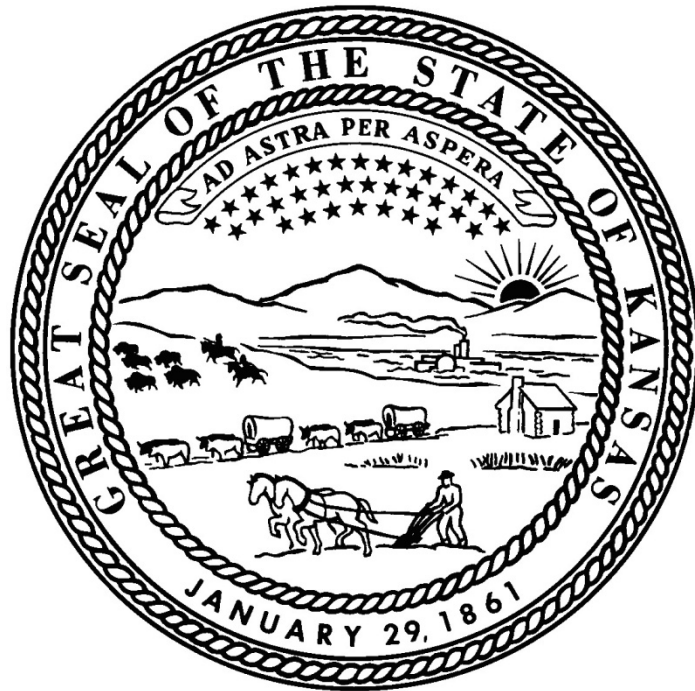
*Supreme Court of Kansas*  
*Chief Justice*  
Lawton Nuss

*Justices*  
Marla J. Luckert  
Carol A. Beier  
Eric S. Rosen  
Lee A. Johnson  
Dan Biles  
Caleb Stegall

*Court of Appeals*  
*Chief Judge*  
Thomas E. Malone

*Judicial Council*  
*Executive Director*  
Nancy J. Strouse

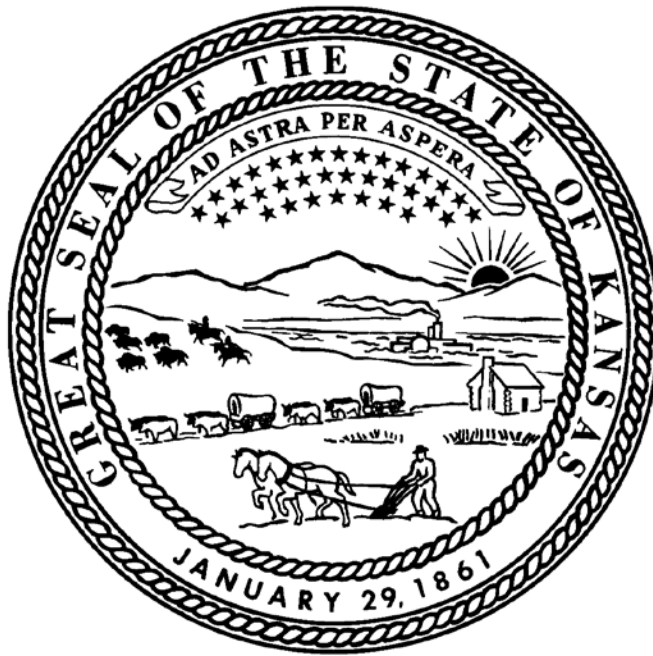
*Judicial Administrator*  
Nancy M. Dixon



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**FINANCIAL**

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## INDEPENDENT AUDITORS' REPORT

Legislative Post Audit Committee  
Kansas State Legislature  
State of Kansas

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Kansas, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

We did not audit the financial statements of the various component units of the six state universities which represent 52 percent and 26 percent, respectively, of the assets and deferred outflows of resources and revenues of the discretely presented component units, the Kansas Development Finance Authority (KDFA) which represents less than 1 percent and less than 1 percent, respectively, of assets and deferred outflows of resources and revenues of the discretely presented component units, the Kansas Center for Entrepreneurship (KCE) which represents less than 1 percent and less than 1 percent, respectively, of assets and deferred outflows of resources and revenues of the discretely presented component units, the Kansas Turnpike Authority (KTA) which represents 9 percent and 4 percent, respectively, of assets and deferred outflows of resources and revenues of the discretely presented component units, the Kansas Housing Resources Corporation (KHRC) which represents less than 1 percent and 3 percent, respectively, of assets and deferred outflows of resources and revenues of the discretely presented component units, the Kansas Bioscience Authority (KBA) which represents 1 percent and less than 1 percent, respectively, of assets and deferred

outflows of resources and revenues of the discretely presented component units, the Information Network of Kansas, Inc. (INK) which represents less than 1 percent and less than 1 percent, respectively, of assets and deferred outflows of resources and revenues of the discretely presented component units, the Kansas Universal Services Fund (reported within the State Regulatory Boards and Commissions Fund) which represents less than 1 percent and less than 1 percent, respectively, of the assets and deferred outflows of resources and revenues of the aggregate remaining fund information, and the Kansas Lottery which represents less than 1 percent and 10 percent, respectively, of the assets and deferred outflows of resources and revenues of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of the six state universities, KDFA, KCE, KTA, KHRC, KBA and INK in the aggregate discretely presented component units, and the Kansas Universal Services Fund and Kansas Lottery in the aggregate remaining fund information, is based solely on the reports of other auditors.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Kansas as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matters***

The State has an accumulated total fund balance deficit in the General Fund of \$504 million as of June 30, 2016, which has resulted from an operating deficit of \$282.2 million for the year ended June 30, 2015 and an operating deficit of \$225.7 million for the year ended June 30, 2016. The deficit raises significant liquidity risks regarding the State's ability to meet its financial obligations as they come due without raising revenues, cutting costs of services provided, and effectuating financial restructuring. The liquidity risks and management's plans are disclosed in Note II.A and IV.H. Our opinions are not modified with respect to this matter.



As discussed in Note III.J to the financial statements, various adjustments were made to the beginning net positions and fund balances to correct errors in the prior year financial statements. Our opinion is not modified with respect to these matters.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information, the information needed to support the modified approach for infrastructure reporting, the schedule of the State's proportionate share of the net pension liability, and the schedule of State contributions, as listed in the accompanying table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed described above, and the report of other auditors, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The accompanying introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2016, on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

**CliftonLarsonAllen LLP**

Broomfield, Colorado  
November 21, 2016

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This narrative overview and analysis of the State of Kansas Comprehensive Annual Financial Report (CAFR) is provided for readers of the financial statements for the fiscal year ended June 30, 2016. This information is to be used in conjunction with the additional information furnished in the preceding letter of transmittal and with the financial statements that follow. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

### FINANCIAL HIGHLIGHTS

#### Government-wide highlights:

- The assets and deferred outflows of resources of the State exceeded its liabilities and deferred inflows of resources at fiscal year ending June 30, 2016 by \$8.8 billion (presented as "net position"). Of this amount a negative \$2.1 billion was reported as unrestricted net position, which represents the amount available to be used to meet ongoing obligations to citizens and creditors.
- Total net position decreased by \$0.9 billion (9.32 percent) in fiscal year 2016, including restatements. Net position of governmental activities decreased by \$1.1 billion (12.07 percent), and net position of the business-type activities increased \$146.0 million (14.4 percent).

#### Fund highlights:

- For fiscal year 2016, the governmental funds reported a combined ending fund balance of \$0.7 billion, a decrease of \$208.0 million in comparison with the prior year. Of the total amount, \$468.2 million represents the fund balance of the Non-Major Governmental funds. The General Fund reported an unassigned fund balance for fiscal year 2016 of a negative \$509.2 million, as compared to the prior year unassigned balance of a negative \$285.0 million. See page 17 for additional information on the General Fund budget.

#### Long-term debt:

- The State's total long-term debt obligation (including bonds payable on demand) showed a net increase of \$1.6 billion (25.0%) during the current year. This net increase was primarily due the issuance of bonds in the amount of \$1.2 billion and increase in the net pension liability of \$328.2 million.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the State of Kansas basic financial statements. The basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information and other supplementary information in addition to the basic financial statements.

#### Basic Financial Statements

The basic financial statements include two kinds of financial statements that present different views of the State – the *Government-wide Financial Statements* and the *Fund Financial Statements*. These financial statements also include the *Notes to the Financial Statements* that explain some of the information in the financial statements and provide more detail.

## **Government-wide Financial Statements**

The *Government-wide Financial Statements* provide a broad view of operations in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the financial position to assist in assessing the State's economic condition at the end of the fiscal year. These are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This method is similar to those used by most businesses and takes into account all revenues and expenses connected with the fiscal year, even if cash involved has not been received or paid. The government-wide financial statements include two statements:

The *Statement of Net Position* presents all of the government's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as "net position". Over time, increases or decreases in the State's net position may serve as a useful indicator of whether the financial position is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the State.

Both of the above financial statements have separate sections for three different types of State programs or activities. These three types of activities are:

*Governmental Activities* – The activities in this section are mostly supported by taxes and intergovernmental revenues (federal grants). Most services normally associated with State government fall into this category, including education, general government, health services, judiciary services, museums, natural resources, public safety, defense, regulatory services, social services, and transportation.

*Business-type Activities* – These functions normally are intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services.

*Discretely Presented Component Units* – These are operations for which the State has financial accountability but they have certain independent qualities as well. For the most part, these entities operate similar to private sector businesses and the business-type activities described above.

Financial statements of the individual component units can be found in the basic financial statements following the fund statements. Addresses and other additional information about component units are presented in the notes to the financial statements. The government-wide financial statements can be found immediately following this discussion and analysis.

## **Fund Financial Statements**

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The State, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund financial statements focus on individual parts of the State government, reporting the operations in more detail than the government-wide statements. All of the funds can be divided into three categories. It is important to note that these fund categories use different accounting approaches and should be interpreted differently. The three categories of funds financial statements are:

***Governmental Funds Financial Statements*** - Most of the basic services provided by the State are financed through governmental type funds. Governmental funds are used to account for the functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of expendable resources. They also focus on the balances of expendable resources available at the end of the fiscal year. This information may be helpful in evaluating the government's near-term financial requirements. This approach is known as the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of State finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the State.

Because the focus of governmental funds is narrower than that of the government statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are presented on the page immediately following each governmental fund financial statement.

The State has five governmental funds considered major funds for presentation purposes. Each major fund is presented in a separate column in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances. The five governmental funds are – the General Fund, the Social Services Fund, the Health and Environment Fund, the Education Fund and the Transportation Fund. The basic governmental funds financial statements can be found immediately following the government-wide statements.

***Proprietary Funds Financial Statements*** – These funds are used to show activities that operate more like those of commercial enterprises. Because these funds charge fees for services provided to outside customers including local governments, they are known as enterprise funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Like the government-wide financial statements, proprietary fund financial statements use the accrual basis of accounting. No reconciliation is needed between the government-wide financial statements for business-type activities and the proprietary fund financial statements.

The State's major proprietary funds for presentation purposes are the Unemployment Insurance Fund (within the Department of Labor), the Water Pollution Control and Public Water Supply Revolving Loan Funds (within the Department of Health and Environment) and the Health Care Stabilization Fund.

The basic proprietary funds financial statements can be found immediately following the governmental fund financial statements.

***Fiduciary Funds Financial Statements*** – These funds are used to account for resources held for the benefit of parties outside the State government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the State's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. They use the accrual basis of accounting.

The fiduciary funds are the Kansas Public Employees Retirement Fund, the Investment Trust Fund (which accounts for the transactions, assets, liabilities and fund equity of the external investment pool), and the Agency Funds (which account for the assets held for distribution by the State as an agent for other governmental units, other organizations or individuals). Individual fund detail can be found in the combining financial statements described below.

The basic fiduciary funds financial statements can be found immediately following the proprietary funds financial statements.

### ***Notes to the Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found immediately following the financial statements.

### **Required Supplementary Information**

The basic financial statements are followed by a section of required supplementary information. This section includes budgetary comparisons for the major funds. Comparisons can be made between the original budget, final budget, and actual revenues and expenditures. This section includes reconciliation between budgetary basis and the accrual basis for major funds as presented in the governmental funds financial statements. This section also includes Kansas Department of Transportation modified approach explanation for infrastructure, other post-employment benefit funding progress, schedule of the State's proportionate share of the net pension liability for the Kansas Pension Retirement Plan and schedule of State contributions for the Kansas Pension Retirement Plan.

### **Other Supplementary Information**

#### ***Combining Financial Statements***

The combining financial statements are presented following the required supplementary information. The total columns of these combining financial statements carry to the applicable fund financial statement.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

### **Net Position**

As noted earlier, net position may serve over time as a useful indicator of the financial position of a government. The combined net position of the State (government and business-type activities) totaled \$8.84 billion at the end of 2016, compared to \$9.75 billion at the end of the previous year, a decrease of 9.32 percent.

The largest portion of net position reflects investment in capital assets such as land, buildings, equipment, and infrastructure (roads, bridges, and other immovable assets), less any related debt used to acquire those assets that are still outstanding. The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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**State of Kansas Net Position – Primary Government**  
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 2,578,160	\$ 2,591,479	\$ 1,797,513	\$ 1,742,009	\$ 4,375,673	\$ 4,333,488
Capital assets	13,541,195	13,202,564	675	320	13,541,870	13,202,884
Total assets	16,119,355	15,794,043	1,798,188	1,742,329	17,917,543	17,536,372
Accumulated decrease in fair value hedging	14,983	12,072	0	0	14,983	12,072
Deferred amounts on refunding	43,302	23,384	14,202	16,925	57,504	40,309
Deferred outflows - pensions	444,302	128,536	909	441	445,211	128,977
Total deferred outflows	502,587	163,992	15,111	17,366	517,698	181,358
Non-current liabilities	7,135,763	5,512,316	609,726	683,102	7,745,489	6,195,418
Other liabilities	1,622,676	1,414,106	41,900	60,429	1,664,576	1,474,535
Total liabilities	8,758,439	6,926,422	651,626	743,531	9,410,065	7,669,953
Deferred inflows - pensions	184,191	297,942	630	1,107	184,821	299,049
Total deferred inflows	184,191	297,942	630	1,107	184,821	299,049
Net investment in capital assets	9,683,734	9,664,367	675	320	9,684,409	9,664,687
Restricted	1,123,007	1,110,905	1,168,392	1,021,260	2,291,399	2,132,165
Unrestricted	(3,127,429)	(2,041,601)	(8,024)	(6,523)	(3,135,453)	(2,048,124)
Total net position	\$ 7,679,312	\$ 8,733,671	\$ 1,161,043	\$ 1,015,057	\$ 8,840,355	\$ 9,748,728

An additional portion of net position represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position may be used to meet the ongoing obligations to citizens and creditors. Internally imposed designations of resources are not represented as restricted net position.

At the end of the current fiscal year, the State is able to report positive balances in the net investment in capital assets and restricted categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year. Negative unrestricted net position reported for the government as a whole and for its separate governmental and business-type activities is due in part to the reporting of the net pension liability under GASB 68. See Note IV. E. for more information.

**State of Kansas Net Position – Component Units**  
(expressed in thousands)

	Component Units	
	2016	2015
Current assets	\$ 4,921,166	\$ 4,757,699
Capital assets	3,785,875	3,375,147
Total assets	8,707,041	8,132,846
Deferred amounts on refunding	13,371	12,550
Deferred outflows - pensions	28,184	18,358
Total deferred outflows	41,555	30,908
Non-current liabilities	2,301,676	1,851,418
Other liabilities	426,048	400,571
Total liabilities	2,727,724	2,251,989
Deferred inflows - pensions	26,859	46,897
Total deferred inflows	26,859	46,897
Net investment in capital assets	2,351,879	2,177,149
Restricted	3,039,995	2,979,311
Unrestricted	602,139	708,408
Total net position	\$ 5,994,013	\$ 5,864,868

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**Changes in Net Position – Primary Government**

Net position decreased by \$0.9 billion. Approximately 53.6 percent of the total revenue came from taxes, while 28.5 percent resulted from grants and contributions (including federal aid). Charges for various goods and services provided 13.9 percent of the total revenues. Expenses cover a range of services. The largest expenses of total expenses were for education (42.0 percent), human resources (18.2 percent), and health and environment (17.7 percent).

**State of Kansas Changes in Net Position – Primary Government**  
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 871,358	\$ 829,508	\$ 1,028,069	\$ 1,089,191	\$ 1,899,427	\$ 1,918,699
Operating grants and contributions	3,716,333	3,597,229	3,046	5,254	3,719,379	3,602,483
Capital grants and contributions	160,758	209,883	16,218	34,437	176,976	244,320
General revenues:						
Taxes						
Property taxes	646,985	644,964	0	0	646,985	644,964
Income and inheritance taxes	2,633,381	2,864,790	0	0	2,633,381	2,864,790
Sales and excise taxes	3,758,095	3,607,478	0	0	3,758,095	3,607,478
Gross receipts taxes	299,421	215,145	0	0	299,421	215,145
Investment earnings	15,855	7,805	29,373	14,731	45,228	22,536
Other revenue	484,227	474,171	26,682	49,973	510,909	524,144
Total revenues	<u>12,586,413</u>	<u>12,450,973</u>	<u>1,103,388</u>	<u>1,193,586</u>	<u>13,689,801</u>	<u>13,644,559</u>
<b>Expenses:</b>						
General government	729,837	898,782	0	0	729,837	898,782
Human resources	2,648,404	2,660,656	0	0	2,648,404	2,660,656
Education	6,095,595	5,364,450	0	0	6,095,595	5,364,450
Public safety	582,235	576,079	0	0	582,235	576,079
Agriculture and natural resources	131,105	119,297	0	0	131,105	119,297
Highways and other transportation	824,742	887,297	0	0	824,742	887,297
Health and environment	2,566,146	2,358,837	0	0	2,566,146	2,358,837
Interest expense	146,939	123,273	0	0	146,939	123,273
Water pollution and safety	0	0	28,036	26,434	28,036	26,434
Health care stabilization	0	0	38,675	88,338	38,675	88,338
Unemployment insurance	0	0	239,649	292,794	239,649	292,794
Workers' compensation	0	0	3,725	6,946	3,725	6,946
Lottery	0	0	475,860	459,748	475,860	459,748
Intergovernmental transfer program	0	0	346	80	346	80
Transportation revolving fund	0	0	1,182	2,052	1,182	2,052
Total expenses	<u>13,725,003</u>	<u>12,988,671</u>	<u>787,473</u>	<u>876,392</u>	<u>14,512,476</u>	<u>13,865,063</u>
Increase (decrease) in net assets before transfers	(1,138,590)	(537,698)	315,915	317,194	(822,675)	(220,504)
Transfers	<u>169,929</u>	<u>164,266</u>	<u>(169,929)</u>	<u>(164,266)</u>	<u>0</u>	<u>0</u>
Change in net position	(968,661)	(373,432)	145,986	152,928	(822,675)	(220,504)
Net position, beginning of year	8,733,671	10,984,742	1,015,057	868,400	9,748,728	11,853,142
Revisions to beginning net position	<u>(85,698)</u>	<u>(1,877,639)</u>	<u>0</u>	<u>(6,271)</u>	<u>(85,698)</u>	<u>(1,883,910)</u>
Net position, beginning of year (restated)	<u>8,647,973</u>	<u>9,107,103</u>	<u>1,015,057</u>	<u>862,129</u>	<u>9,663,030</u>	<u>9,969,232</u>
Net position, end of year	<u>\$ 7,679,312</u>	<u>\$ 8,733,671</u>	<u>\$ 1,161,043</u>	<u>\$ 1,015,057</u>	<u>\$ 8,840,355</u>	<u>\$ 9,748,728</u>



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**Changes in Net Position – Component Units**

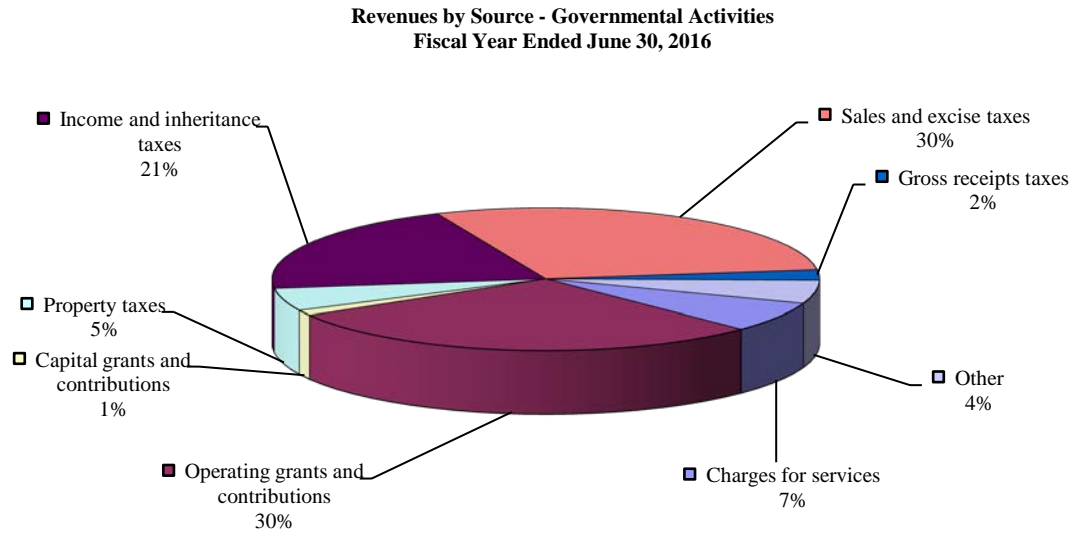
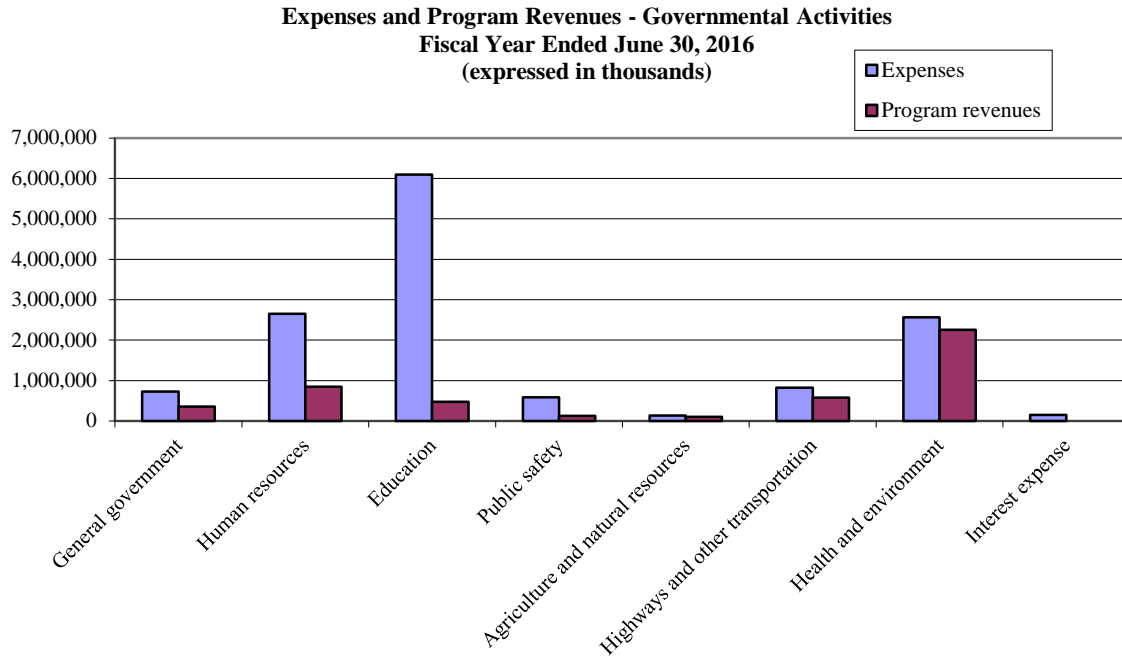
Component unit net position increased by \$129.1 million or 2.2 percent. Charges for various goods and services provided 41.9 percent of the total revenues. Approximately 33.3 percent of the total revenue came from other revenue, while 24.0 percent resulted from grants and contributions (including federal aid). Expenses cover a range of services and are shown below by component unit below.

**State of Kansas Changes in Net Position – Component Unit**  
(expressed in thousands)

	Component Units	
	2016	2015
<b>Revenues:</b>		
Program revenues:		
Charges for services	\$ 1,341,930	\$ 1,339,130
Operating grants and contributions	632,292	676,667
Capital grants and contributions	66,527	121,538
General revenues:		
Taxes		
Property Tax	7,357	7,408
Investment earnings	20,657	22,138
Other revenue	1,064,899	1,093,301
Total revenues	<u>3,133,662</u>	<u>3,260,182</u>
<b>Expenses:</b>		
Kansas Turnpike Authority	80,916	68,782
Kansas Development Finance Authority	1,799	1,751
Kansas Bioscience Authority	14,746	20,470
Information Network of Kansas, Inc.	511	0
State University System	2,822,710	2,860,309
Kansas Center for Entrepreneurship	2,853	1,364
Kansas Housing Resources Corp.	83,949	84,318
Total expenses	<u>3,007,484</u>	<u>3,036,994</u>
Change in net position	126,178	223,188
Net position, beginning of year	5,864,868	5,809,435
Revisions to beginning net position	<u>2,967</u>	<u>(167,755)</u>
Net position, beginning of year (restated)	<u>5,867,835</u>	<u>5,641,680</u>
Net position, end of year	<u><u>\$ 5,994,013</u></u>	<u><u>\$ 5,864,868</u></u>

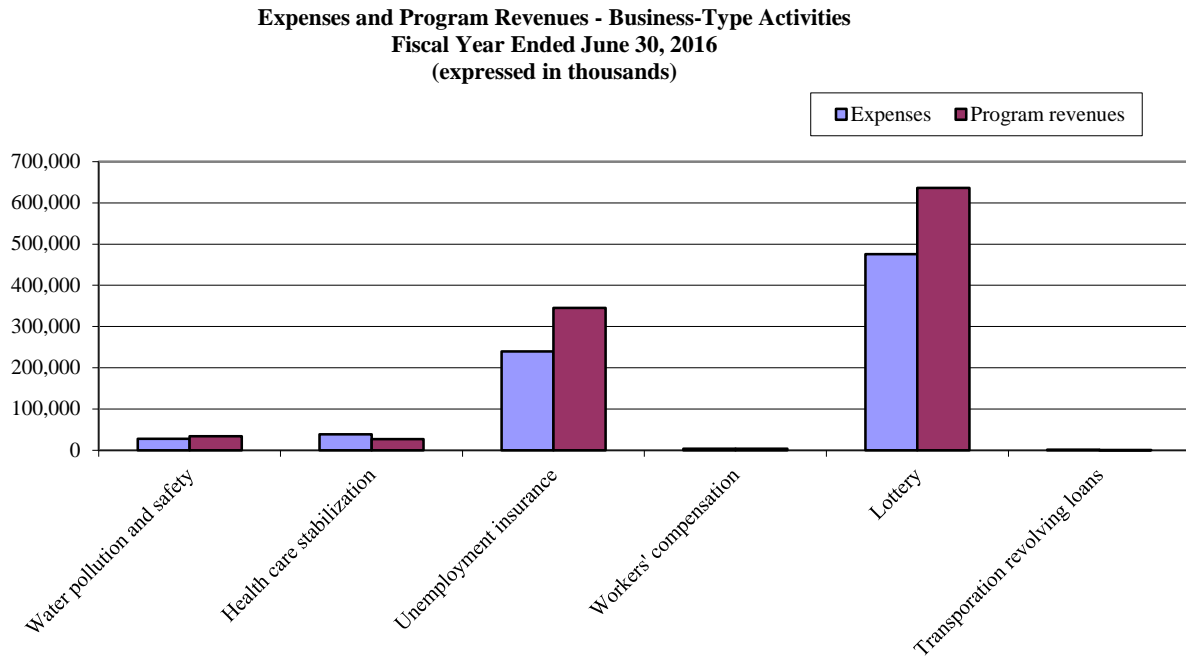
### Governmental Activities

Governmental activities decreased net position by \$1.1 billion in fiscal year 2016 including various restatements. For the State's governmental activities a comparison of the cost of services by function along with program revenues and a summary of revenues by source are shown below:

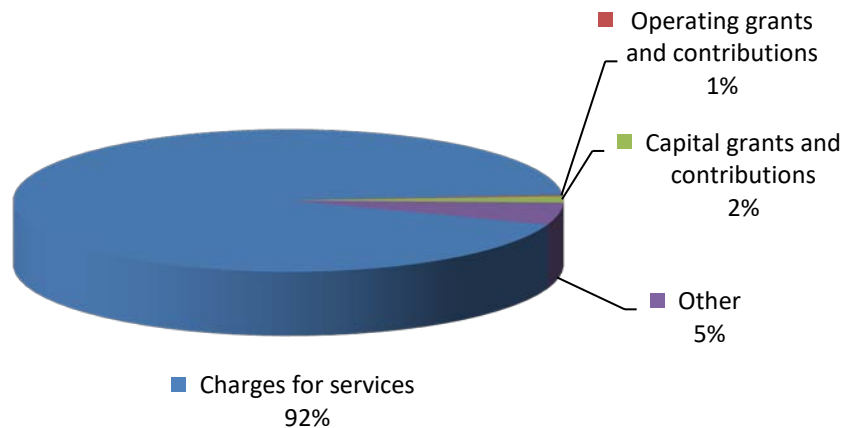


### Business-Type Activities

The State's business-type activities increased the net position of the State by \$146.0 million. For the State's business-type activities a comparison of the cost of services by function along with program revenues and a summary of revenues by source are shown below:



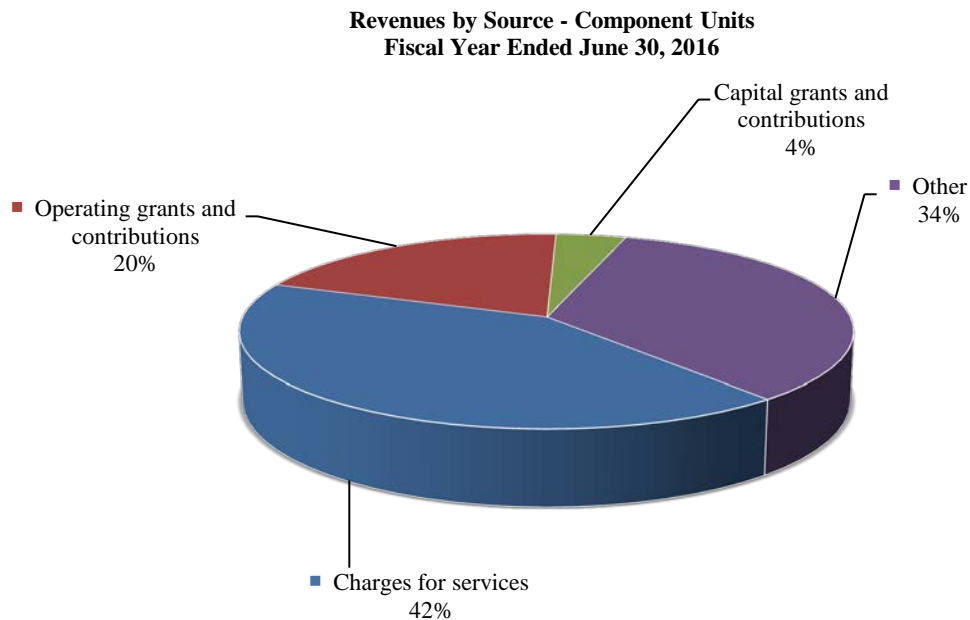
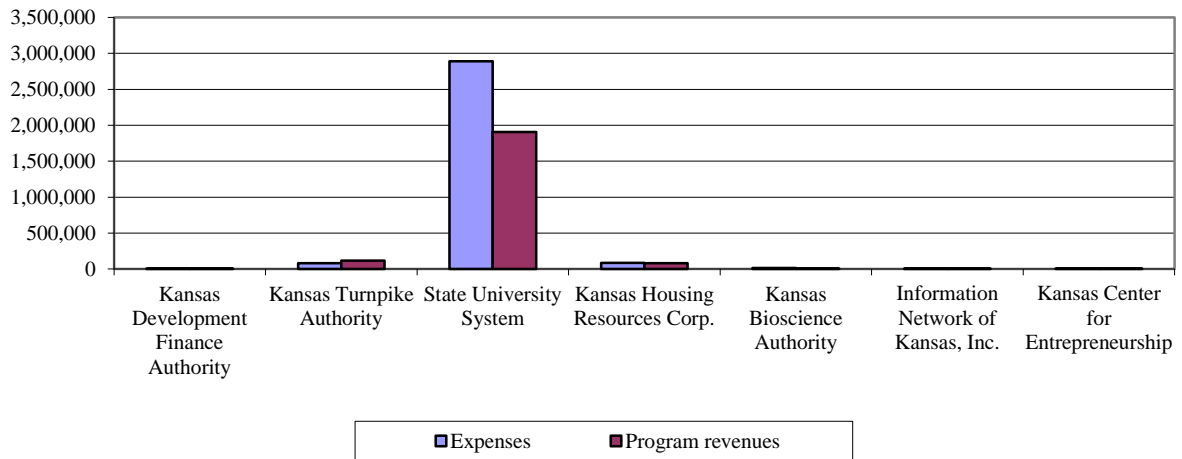
**Revenues by Source - Business-Type Activities**  
**Fiscal Year Ended June 30, 2016**



### Component Units

The State's component units increased the net position of the State by \$129.1million, including restatements. For the State's component units a comparison of the cost of services by function along with program revenues and a summary of revenues by source are shown below:

**Expenses and Program Revenues - Component Units**  
**Fiscal Year Ended June 30, 2016**  
(expressed in thousands)



## **FINANCIAL ANALYSIS OF THE STATE'S INDIVIDUAL FUNDS**

As noted earlier, the State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

### **Governmental Funds**

The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the financing requirements.

For fiscal year 2016, the governmental funds reported a combined ending fund balance of \$0.7 billion, a decrease of \$208.0 million in comparison with the prior year. Part of this fund balance is nonspendable to indicate that it is not available for spending. The major portion of the Fund balance is restricted by the enabling legislation and purpose restricted grant funds.

The General Fund is the chief operating fund of the State. At the end of the current fiscal year, unassigned fund balance of the General Fund was a negative \$509.2 million, while the total fund balance was a negative \$504.4 million. During fiscal year 2016, the State experienced increased revenue in property tax, gross receipts tax and sales and excise taxes. During the 2012 Legislative Session, House Bill 2117 was passed and signed into law. This Bill contained a number of provisions (most of which become effective January 1, 2013) which affect Kansas income tax. The cash and investment balance is approximately \$43 million lower in fiscal year 2016 than it was in fiscal year 2015.

### **Proprietary Funds**

Proprietary funds provide the same type of information found in the government-wide financial statements.

As discussed in the business-type activities previously, the State's net position increased by \$146.0 million as a result of operations in the proprietary funds. This increase resulted from a \$11.2 million increase in the Water Funds, a \$128.4 million increase in the Unemployment Insurance Fund and a \$6.7 million increase in the Health Care Stabilization Fund. There was a decrease of \$328 in the Other Nonmajor Funds.

### **Component Unit Funds**

Although legally separate from the State, component units are financially accountable to the State, or their relationships are such that exclusion would cause the State's financial statements to be misleading or incomplete. Component units are reported in its own column on the financial statements.

The State's component unit net position increased by \$129.1 million. Approximately \$3 million resulted from adding the Information Network of Kansas, Inc. as a component unit in the current fiscal year. The Kansas Turnpike accounted for \$37.2 million of the increase in net position. The State University System accounted for an increase of \$110.9 million. The other four component units accounted for a decrease in net position of \$22.3 million.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

Differences existed between the original budget and the final budget. Revenue estimates were decreased by approximately \$154.7 million and expenditure estimates were decreased by approximately \$185.6 million. The original estimates provided for revenues less than expenditures of \$139.3 million. The final budget provided for \$108.2 million of revenues less than expenditures. Subsequently, fiscal year 2016 was closed with revenues less than expenditures of \$162.6 million.

Looking ahead to fiscal year 2017, there are several areas that will affect budget outcomes including tax policy, school finance, pensions, and state expenditures.

In FY 2015, changes were made to law regarding individual income tax, sales and compensating use tax provisions, and taxes on cigarettes. The tax law changes were estimated to result in additional revenues totaling \$381.7 million in fiscal year 2016 and \$420.5 million in fiscal year 2017. In the original fiscal year 2016 budget, revenues subject to tax law changes were expected to total \$5.377 billion. In the final budget for fiscal year 2016, the estimate was reduced to \$5.118 billion. Actual revenues subject to tax law changes for fiscal year 2016 totaled \$5.046 billion. While revenues from these sources were lower than originally estimated, they did generate \$197.1 million more revenue in fiscal year 2016 compared to fiscal year 2015. It is expected that improvements to the collection of delinquent taxes will bring in \$41.7 million worth of unpaid taxes in fiscal year 2017, primarily from individual income taxes.

A school financing package was enacted in June 2016 to address the Kansas Supreme Court opinion on school finance related to equity issues. During the regular 2016 Session, the Legislature modified the Governor's original recommendation for block grant funding for state aid payments to school districts by approving Senate Substitute for House Bill 2655. Specifically, the bill changed statutory formulas for providing Supplemental General State Aid and Capital Outlay State Aid for FY 2017; provides for School District Equalization State Aid; changed non-severability provisions to severability provisions; and amends law related to Ancillary School Facilities State Aid. The bill made necessary appropriations for the school finance formula changes contained in the bill. However, Governor Brownback called for a special session to convene on June 23, 2016 to address the Supreme Court opinion on school finance related to equity issues. A special session of the Kansas Legislature occurs when the Legislature is called to convene a time outside the regular legislative session, usually to address a particular topic or emergency. The special session concluded on June 24, 2016. The 2016 Legislature enacted and the Governor signed House Substitute for House Bill 2001, which contained the following changes to school finance:

The 2016 Legislature funded Supplemental General State Aid, also known as Local Option Budget (LOB) State Aid, under the formula that was in effect prior to the block grant. To fund LOB state aid at this higher level, the 2016 Legislature appropriated \$99.4 million from the State General Fund in FY 2017. The 2016 Legislature partially offset the increase to LOB State Aid by (1) lapsing the funds it appropriated during the regular 2016 Legislative Session for Equalization State Aid in FY 2017, which totaled \$61.8 million, all from the State General Fund; (2) reducing funding from the block grant in FY 2017 by \$2.8 million from the State General Fund as a result of freezing the calculation of the virtual school weighting; and (3) reducing the amount of funding available for Extraordinary Needs State Aid by \$4.5 million to a total of \$13.0 million in FY 2017. In addition, if sufficient funds are not available in the LOB State Aid or the Capital Outlay State Aid appropriations to fully fund districts entitlements during FY 2017, amounts in the Extraordinary Needs State Aid can be utilized for these purposes. Currently, the \$13.0 million from the State General Fund for Extraordinary Needs State Aid will be derived from the sale of the Kansas Bioscience Authority (KBA). Preliminary estimates for the sale of the KBA are approximately \$38.0 million with \$25.0 million to be credited to the State General Fund for general obligations and \$13.0 million used to provide State General Fund resources for Extraordinary Needs State Aid in FY 2017. However, the 2016 Legislature provided that if the proceeds from the sale of the Kansas Bioscience Authority are less than \$38.0 million, then the difference between the amount of the proceeds and \$38.0 million can be reduced from amounts available in the Extraordinary Needs State Aid and transferred to the State General Fund in FY 2017. K-12 expenditures will be monitored to ensure sufficient funds are available to fully fund district entitlements during fiscal year 2017.

The employer contribution rate for the State/School Group, which is the largest group within the State's pension system, will remain at 10.81 percent of payroll in fiscal year 2017. The rate was approved in fiscal year 2015.

Reductions representing approximately 4.0 percent of expenditures were made to most state agencies prior to the start of fiscal year 2017. The reductions totaled \$93.0 million.

The Consensus Estimating Group met on November 10, 2016 to revise the State General Fund revenue estimate for FY 2017 and to make its first official assessment of FY 2018 and FY 2019. For FY 2017, the

estimate was decreased by \$345.9 million, or 5.5 percent, below the previous estimate made in April 2016 and subsequently adjusted for legislation enacted during the veto session and special session.

The initial estimate for FY 2018 is \$5.536 billion, which is \$443.7 million, or 7.4 percent, below the newly revised FY 2017 figure. The amount of total taxes is estimated to increase by 1.4 percent in FY 2018, following a 1.3 percent decrease in FY 2017.

The initial estimate for FY 2019 is \$5.575 billion, which is \$39.0 million, or 0.7 percent, above the FY 2018 figure.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

State investment in capital assets for its governmental and business-type activities as of June 30, 2016, amounts to \$13.5 billion. This investment in capital assets includes land, buildings, improvements, equipment, intangible assets, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the State, such as roads and bridges.

The Kansas Department of Transportation (KDOT) used the modified approach for valuing their infrastructure. The roadways' conditions are assessed using a pavement management system. The bridges' conditions are assessed using the Pontis Bridge Management System. The conditions for the roadways and the bridges exceeded KDOT's policy for minimum condition levels.

The total increase in the investment in capital assets for governmental and business-type activities for the current fiscal year was 2.6 percent in terms of net book value. The majority of capital asset expenditures were used to construct or reconstruct roads and bridges. Depreciation charges for the year totaled \$89.7 million. Additional information on the capital assets can be found in Note III of the notes to the financial statements of this report.

### **Debt Administration**

The State does not have the statutory authority to issue general obligation bonds. The Legislature has authorized the issuance of specific purpose revenue bonds and other forms of long-term obligations.

Kansas Development Finance Authority (KDFA) is a public body politic and corporate, constituting an independent instrumentality of the State. It was created to enhance the ability of the State to finance capital improvements and improve access to long-term financing for State agencies, political subdivisions, public and private organizations, and businesses.

The total long-term debt obligations increased by \$1.6 billion during the current fiscal year. The key factor in this increase was the issuance of new revenue bonds. During the 2015 state legislative session, Senate Bill 228 was passed authoring the issuance of one or more series of revenue bonds to provide deposits to KPERS in a total amount not to exceed \$1 billion. The purpose of such bond issuance would be for financing a portion of the unfunded actuarial pension liability of KPERS, which would also have an effect on the collective net pension liability. On August 20, 2015, the State issued \$1.01 billion of bonds in accordance with this bill. Approximately 14.34% or \$143.4 million was applied by KPERS to the unfunded liabilities of the State Group and approximately 85.66% or \$856.6 million was applied by KPERS to the unfunded liabilities of the School Group. The transaction has been reflected as a deferred outflow in the statement of net position and an expense under education in the statement of activities.

Additional information on long-term debt obligations can be found in Note III of the notes to the financial statements of this report.

## **ECONOMIC FACTORS**

The Kansas economy continued to grow in fiscal year 2016 but at a slower pace than in recent years due to struggles in the agriculture and oil and gas industries. The Kansas Department of Labor reports Kansas gained 4,400 non-farm jobs over the last fiscal year, a .3 percent increase. Kansas has gained 4,100 private sector jobs since June 2015, a .4 percent increase. Six of the 11 major industries in Kansas reported fiscal year job gains, the greatest in Leisure and hospitality by 2.3 percent. Mining and Logging was the major industry that saw the biggest decline for the fiscal year at 12.9 percent. This was followed by the Information industry declining at 7.1 percent and Construction at a decline of 5.1 percent.

The agriculture sector suffered from drought related declines in 2014, 2015 and 2016, affecting some aspects of the Kansas economy. The oil and gas sector suffered due to the large decline in gas prices.

The unemployment rate was 4.4 percent in June 2016, compared to 4.7 percent in June 2015. There were 56,279 continued unemployment claims in June, 2016, down from 81,504 in June, 2015. Additional demographic and economic information may be found in the Statistical Section of this report.

## **FISCAL YEAR 2016 STATE GENERAL FUND ALLOTMENTS**

An executive branch allotment system to reduce expenditures is applicable to the expenditures by State agencies when under certain circumstances for any fiscal year the resources of the State General Fund or any special revenue fund appear likely to be insufficient to cover appropriations made against the State General Fund or such special revenue fund. Such determinations are to be made by the Director of the Budget.

This allotment authority was expanded first in fiscal year 2015 and again in fiscal year 2016. The expanded authority allows State General Fund expenditure reductions and transfers from special revenue funds to the State General Fund whenever the estimated State General Fund ending balance is below \$100.0 million. Four allotments were enacted during fiscal year 2016 which reduced executive branch State General Fund expenditures by \$111.4 million and transferred \$101.7 million from special revenue funds to the State General Fund.

Additional information can be found in Note IV of the notes to the financial statements of this report.

## **FISCAL YEAR 2017 STATE GENERAL FUND REDUCTIONS AND TRANSFERS**

Using the allotment authority described in "FISCAL YEAR 2016 STATE GENERAL FUND STATE GENERAL FUND REDUCTIONS AND TRANSFERS," an allotment was enacted in May 2016 prior to the beginning of fiscal year 2017. The allotment reduced executive branch expenditures by \$93.0 million and transferred \$4.0 million from special revenue funds to the State General Fund. The allotments represented a 4.0 percent reduction to most state agencies.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of State finances for all of Kansas's citizens, taxpayers, customers, investors and creditors. This financial report seeks to demonstrate State accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

DeAnn Hill, CPA  
Chief Financial Officer for the State of Kansas  
Office of the Chief Financial Officer  
700 SW Harrison, Suite 300  
Topeka, KS 66603



# **Financial Statements**

State of Kansas  
**Financial Statements**  
June 30, 2016

**Government Wide - Statement of Net Position**

**June 30, 2016**

(expressed in thousands)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Totals	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,273,494	\$ 186,271	\$ 1,459,765	\$ 793,627
Investments	3,460	187,002	190,462	619,772
Receivables (net)	1,054,845	592,708	1,647,553	548,625
Due from primary government:				
Investment in direct financing leases, due within one year	0	0	0	655
Investment in direct financing leases, due in more than one year	0	0	0	2,175
Internal balances	5,411	(5,411)	0	0
Inventories	42,423	3,410	45,833	14,820
Other current assets	0	0	0	30,781
Restricted cash and cash equivalents	184,722	560,589	745,311	208,588
Restricted investments	12,410	272,944	285,354	2,674,262
Capital assets not being depreciated	12,420,514	0	12,420,514	1,110,570
Capital assets, net of accumulated depreciation	1,120,681	675	1,121,356	2,675,305
Other noncurrent assets	1,395	0	1,395	27,861
Total assets	<u>16,119,355</u>	<u>1,798,188</u>	<u>17,917,543</u>	<u>8,707,041</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Accumulated decrease in fair value of hedging derivatives	14,983	0	14,983	0
Deferred amounts on refunding	43,302	14,202	57,504	13,371
Deferred outflows - pensions	444,302	909	445,211	28,184
Total deferred outflows of resources	<u>502,587</u>	<u>15,111</u>	<u>517,698</u>	<u>41,555</u>
<b>LIABILITIES</b>				
Accounts payable and other current liabilities	1,432,735	27,885	1,460,620	325,539
Due to component unit:				
Lease revenue bonds payable, due within one year	655	0	655	0
Lease revenue bonds payable, due in more than one year	2,175	0	2,175	0
Unearned revenue	12,773	14,015	26,788	100,509
Derivative instrument - interest rate swap	27,338	0	27,338	0
Bonds payable on demand	147,000	0	147,000	0
Noncurrent liabilities:				
Due within one year	353,692	47,937	401,629	160,025
Due in more than one year	6,782,071	561,789	7,343,860	2,141,651
Total liabilities	<u>8,758,439</u>	<u>651,626</u>	<u>9,410,065</u>	<u>2,727,724</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows - pensions	184,191	630	184,821	26,859
Total deferred inflows of resources	<u>184,191</u>	<u>630</u>	<u>184,821</u>	<u>26,859</u>
<b>NET POSITION</b>				
Net investment in capital assets	9,683,734	675	9,684,409	2,351,879
Restricted for:				
Capital projects	39,338	0	39,338	202,390
Debt service	0	39,195	39,195	64,973
Nonexpendable	0	0	0	1,191,275
Other purposes	617,513	1,129,197	1,746,710	1,581,357
Highways and other transportation	466,156	0	466,156	0
Unrestricted	<u>(3,127,429)</u>	<u>(8,024)</u>	<u>(3,135,453)</u>	<u>602,139</u>
Total net position	<u>\$ 7,679,312</u>	<u>\$ 1,161,043</u>	<u>\$ 8,840,355</u>	<u>\$ 5,994,013</u>

The notes to the financial statements are an integral part of this statement.

State of Kansas  
**Financial Statements**  
June 30, 2016

**Government Wide - Statement of Activities**  
**For the Fiscal Year Ended June 30, 2016**  
*(expressed in thousands)*

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants	Capital Grants
<b>Primary government:</b>				
Governmental activities:				
General government	\$ 729,837	\$ 293,347	\$ 64,623	\$ 0
Human resources	2,648,404	114,583	732,395	41
Education	6,095,595	5,916	471,453	0
Public safety	582,235	61,671	65,789	25
Agriculture and natural resources	131,105	78,325	27,257	190
Highways and other transportation	824,742	214,428	199,630	160,502
Health and environment	2,566,146	103,088	2,155,186	0
Interest expense	146,939	0	0	0
Total governmental activities	13,725,003	871,358	3,716,333	160,758
Business-type activities:				
Water pollution and safety	28,036	17,629	0	16,218
Health care stabilization	38,675	27,575	0	0
Unemployment insurance	239,649	342,521	3,046	0
Workers' compensation	3,725	3,647	0	0
Lottery	475,860	636,389	0	0
Intergovernmental transfer program	346	0	0	0
Transportation revolving loans	1,182	308	0	0
Total business-type activities	787,473	1,028,069	3,046	16,218
Total primary government	\$ 14,512,476	\$ 1,899,427	\$ 3,719,379	\$ 176,976
<b>Component units:</b>				
Kansas Turnpike Authority	\$ 80,916	\$ 113,960	\$ 1,681	\$ 0
Kansas Development Finance Authority	1,799	1,776	0	0
Kansas Bioscience Authority	14,746	393	0	0
Kansas Center for Entrepreneurship	2,853	3,560	3	0
Information Network of Kansas, Inc.	511	953	0	0
State University System	2,822,710	1,217,424	551,774	66,527
Kansas Housing Resources Corporation	83,949	3,864	78,834	0
Total component units	\$ 3,007,484	\$ 1,341,930	\$ 632,292	\$ 66,527

The notes to the financial statements are an integral part of this statement.

State of Kansas  
**Financial Statements**  
June 30, 2016

Net (Expense) Revenue and Changes in Net Position				
Primary Government				
Governmental Activities	Business-Type Activities	Total	Component Units	
\$ (371,867)	\$ 0	\$ (371,867)	\$	0
(1,801,385)	0	(1,801,385)		0
(5,618,226)	0	(5,618,226)		0
(454,750)	0	(454,750)		0
(25,333)	0	(25,333)		0
(250,182)	0	(250,182)		0
(307,872)	0	(307,872)		0
(146,939)	0	(146,939)		0
<u>(8,976,554)</u>	<u>0</u>	<u>(8,976,554)</u>		<u>0</u>
0	5,811	5,811		0
0	(11,100)	(11,100)		0
0	105,918	105,918		0
0	(78)	(78)		0
0	160,529	160,529		0
0	(346)	(346)		0
0	(874)	(874)		0
<u>0</u>	<u>259,860</u>	<u>259,860</u>		<u>0</u>
<u>\$ (8,976,554)</u>	<u>\$ 259,860</u>	<u>\$ (8,716,694)</u>	<u>\$</u>	<u>0</u>
\$ 0	\$ 0	\$ 0	\$	34,725
0	0	0		(23)
0	0	0		(14,353)
0	0	0		710
0	0	0		442
0	0	0		(986,985)
0	0	0		(1,251)
<u>0</u>	<u>0</u>	<u>0</u>		<u>(966,735)</u>
<b>General revenues:</b>				
Taxes:				
Property tax	\$ 646,985	\$ 0	\$ 646,985	\$ 7,357
Income and inheritance tax	2,633,381	0	2,633,381	0
Sales and excise tax	3,758,095	0	3,758,095	0
Gross receipts tax	299,421	0	299,421	0
Investment earnings	15,855	29,373	45,228	20,657
Other revenue	484,227	26,682	510,909	1,064,899
Transfers	169,929	(169,929)	0	0
<b>Total general revenues</b>	<u>8,007,893</u>	<u>(113,874)</u>	<u>7,894,019</u>	<u>1,092,913</u>
Change in net position	<u>(968,661)</u>	<u>145,986</u>	<u>(822,675)</u>	<u>126,178</u>
Net position - beginning	8,733,671	1,015,057	9,748,728	5,864,868
Revisions to beginning net position	(85,698)	0	(85,698)	2,967
Net position - beginning (restated)	<u>8,647,973</u>	<u>1,015,057</u>	<u>9,663,030</u>	<u>5,867,835</u>
Net position - ending	\$ 7,679,312	\$ 1,161,043	\$ 8,840,355	\$ 5,994,013

State of Kansas  
**Financial Statements**  
June 30, 2016

**Balance Sheet - Governmental Funds**

**June 30, 2016**

(expressed in thousands)

	General	Social Services	Health and Environment	Education	Transporta- tion	Nonmajor Governmental	Total Governmental
<b>ASSETS</b>							
Cash and cash equivalents	\$ 112,715	\$ 64,430	\$ 199,339	\$ 12,465	\$ 363,032	\$ 475,987	\$ 1,227,968
Investments	0	0	0	0	9	3,451	3,460
Receivables, net	597,206	83,431	158,477	136	164,021	45,838	1,049,109
Due from other funds	5,411	0	0	0	0	23,390	28,801
Prepaid insurance	0	0	0	0	27	0	27
Inventories	4,754	1,320	0	0	24,598	3,254	33,926
Advances to other funds	0	0	0	0	0	137,844	137,844
Restricted cash and cash equivalents	0	0	0	0	17,500	137,281	154,781
Restricted investments	0	0	0	0	0	12,410	12,410
Total assets	<u>\$ 720,086</u>	<u>\$ 149,181</u>	<u>\$ 357,816</u>	<u>\$ 12,601</u>	<u>\$ 569,187</u>	<u>\$ 839,455</u>	<u>\$ 2,648,326</u>
<b>LIABILITIES</b>							
Accounts payable and other current liabilities	\$ 820,069	\$ 92,703	\$ 171,195	\$ 6,913	\$ 77,441	\$ 222,440	\$ 1,390,761
Due to other funds	21,895	0	0	0	0	381	22,276
Advances from other funds	134,831	0	0	0	0	1,246	136,077
Unearned revenue	0	0	0	0	12,773	0	12,773
Bonds payable on demand	0	0	0	0	0	147,000	147,000
Total liabilities	<u>976,795</u>	<u>92,703</u>	<u>171,195</u>	<u>6,913</u>	<u>90,214</u>	<u>371,067</u>	<u>1,708,887</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>							
Unavailable revenue - taxes	247,689	68	239	0	21,377	196	269,569
Total deferred inflows of resources	<u>247,689</u>	<u>68</u>	<u>239</u>	<u>0</u>	<u>21,377</u>	<u>196</u>	<u>269,569</u>
<b>FUND BALANCES</b>							
Nonspendable:							
Long-term receivables	0	0	0	0	9,721	4,493	14,214
Inventory	4,754	1,320	0	0	24,598	3,254	33,926
Prepaid Insurance	0	0	0	0	27	0	27
Restricted for:							
Capital projects	0	0	0	0	0	39,338	39,338
Debt service	0	0	0	0	0	154,852	154,852
General government	0	0	0	0	0	190,921	190,921
Human resources	0	55,090	0	0	0	35,123	90,213
Education	0	0	0	5,688	0	7,032	12,720
Public safety	0	0	0	0	0	69,307	69,307
Agriculture and natural resources	0	0	0	0	0	67,970	67,970
Highways and other transportation	0	0	0	0	423,250	42,906	466,156
Health and environment	0	0	186,382	0	0	0	186,382
Unassigned	(509,152)	0	0	0	0	(147,004)	(656,156)
Total fund balance	<u>(504,398)</u>	<u>56,410</u>	<u>186,382</u>	<u>5,688</u>	<u>457,596</u>	<u>468,192</u>	<u>669,870</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 720,086</u>	<u>\$ 149,181</u>	<u>\$ 357,816</u>	<u>\$ 12,601</u>	<u>\$ 569,187</u>	<u>\$ 839,455</u>	<u>\$ 2,648,326</u>

The notes to the financial statements are an integral part of this statement.

(Continued)

State of Kansas  
**Financial Statements**  
June 30, 2016

**Balance Sheet - Governmental Funds - Continued**

**June 30, 2016**

*(expressed in thousands)*

	Total Governmental
<b>Reconciliation to the Statement of Net Position:</b>	
Total fund balance from previous page	\$ 669,870
Capital assets used in governmental activities are not financial resources, and, therefore, are not reported in the funds:	
Capital assets not being depreciated	12,420,514
Capital assets being depreciated	1,120,681
Internal service funds included in above	(80,262)
Other noncurrent assets and deferred outflows of resources are not available to pay for current period expenditures and, therefore, are deferred in the funds:	
Derivatives	14,983
Other noncurrent assets	1,368
Deferred refunding	43,302
Deferred outflows - pensions	444,302
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:	
Notes payable	(17,047)
Capital leases payable	(137,708)
Revenue bonds payable	(4,302,495)
Pollution remediation	(63,053)
Unamortized premium discount	(301,457)
Other post employment benefits	(4,266)
Net pension liability	(2,078,136)
Compensated absences	(112,219)
Claims and judgments	(103,991)
Due to component unit (lease revenue bonds payable)	(2,830)
Arbitrage and derivative liabilities	(27,574)
Deferred inflows of resources adjustment for revenue unavailable at the fund level	269,569
Accrued interest	(53,582)
Internal service funds included in above	125,944
Other deferred inflows of resources are not due and payable in the current period and therefore are not reported in the funds:	
Deferred inflows - pensions	(184,191)
Internal service funds: the assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.	37,590
Net position of governmental activities	<u><u>\$ 7,679,312</u></u>

The notes to the financial statements are an integral part of this statement.

State of Kansas  
**Financial Statements**  
June 30, 2016

**Statement of Revenues, Expenditures, and Changes in Fund Balances -  
Governmental Funds  
For the Fiscal Year Ended June 30, 2016  
(expressed in thousands)**

	General	Social Services	Health and Environment	Education	Transporta- tion	Nonmajor Governmental	Total Governmental
<b>Revenues:</b>							
Property tax	\$ 1,292	\$ 0	\$ 0	\$ 595,135	\$ 0	\$ 53,610	\$ 650,037
Income and inheritance tax	2,621,436	0	0	0	0	24,125	2,645,561
Sales and excise tax	2,937,690	3,261	782	0	819,647	16,624	3,778,004
Gross receipts tax	171,224	0	107,037	0	0	21,155	299,416
Charges for services	30,155	97,756	102,636	4,917	214,428	421,466	871,358
Operating grants	0	707,444	2,155,186	468,827	183,757	190,080	3,705,294
Capital grants	0	0	0	0	162,140	190	162,330
Investment earnings	12,202	103	357	0	1,276	5,189	19,127
Other revenues	17,557	12,687	258,256	55,094	8,713	79,812	432,119
Total revenues	5,791,556	821,251	2,624,254	1,123,973	1,389,961	812,251	12,563,246
<b>Expenditures:</b>							
Current:							
General government	314,843	0	0	0	0	646,881	961,724
Human resources	955,459	1,612,919	0	0	0	88,784	2,657,162
Education	3,869,727	0	0	1,398,596	0	829,328	6,097,651
Public safety	433,569	0	0	0	0	209,301	642,870
Agriculture and natural resources	9,586	0	0	0	0	123,307	132,893
Highways and other transportation	0	0	0	0	1,101,817	21,451	1,123,268
Health and environment	698,843	0	1,857,820	0	0	8,953	2,565,616
Debt service:							
Principal	2,517	53	0	0	0	196,993	199,563
Interest	2,537	60	0	0	0	180,548	183,145
Total expenditures	6,287,081	1,613,032	1,857,820	1,398,596	1,101,817	2,305,546	14,563,892
<b>Excess of revenues over (under) expenditures</b>	<b>(495,525)</b>	<b>(791,781)</b>	<b>766,434</b>	<b>(274,623)</b>	<b>288,144</b>	<b>(1,493,295)</b>	<b>(2,000,646)</b>
<b>Other financing sources (uses):</b>							
Issuance of bonds	0	0	0	0	0	1,421,780	1,421,780
Issuance of capital leases	57,420	0	0	0	0	9,541	66,961
Premium on issuance of debt	0	0	0	0	0	122,880	122,880
Issuance of refunding bonds	0	0	0	0	0	190,875	190,875
Premium on issuance of refunding debt	0	0	0	0	0	0	0
Payment to refunded bonds escrow agent	0	0	0	0	0	(223,778)	(223,778)
Transfers, net	212,331	794,572	(778,233)	268,743	(244,160)	(71,800)	181,453
Total other financing sources (uses)	269,751	794,572	(778,233)	268,743	(244,160)	1,449,498	1,760,171
<b>Net change in fund balances</b>	<b>(225,774)</b>	<b>2,791</b>	<b>(11,799)</b>	<b>(5,880)</b>	<b>43,984</b>	<b>(43,797)</b>	<b>(240,475)</b>
Fund balances, beginning	(279,740)	23,375	198,181	11,568	412,479	511,989	877,852
Revisions to beginning fund balance	1,116	30,244	0	0	0	0	31,360
Fund balance - beginning (restated)	(278,624)	53,619	198,181	11,568	412,479	511,989	909,212
Change in reserves for inventory	0	0	0	0	1,133	0	1,133
<b>Fund balances, end</b>	<b>\$ (504,398)</b>	<b>\$ 56,410</b>	<b>\$ 186,382</b>	<b>\$ 5,688</b>	<b>\$ 457,596</b>	<b>\$ 468,192</b>	<b>\$ 669,870</b>

The notes to the financial statements are an integral part of this statement.

(Continued)

State of Kansas  
**Financial Statements**  
June 30, 2016

**Statement of Revenues, Expenditures, and Changes in Fund Balances -  
Governmental Funds - Continued**  
**For the Fiscal Year Ended June 30, 2016**  
*(expressed in thousands)*

	Total Governmental
<b>Reconciliation to the Statement of Activities:</b>	
Total net change in fund balance from previous page	\$ (240,475)
Governmental funds report capital asset acquisition as expenditures. However, in the statement of activities, the cost of assets capitalized is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capitalized assets exceeded depreciation in the current period.	
Depreciation expense	(79,785)
Capitalized assets acquired	464,980
In the statement of activities, the gain or loss from the sale of capital assets is reported, whereas in the governmental funds, only proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balances by the net book value of capital assets sold.	
	(36,724)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	
Unavailable revenue	(25,697)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long- term liabilities in the statement of net position:	
Revenue bonds	(1,612,655)
Bond premiums and discounts	(122,880)
Deferred refundings	19,918
Other borrowings	(66,961)
Repayment of bond principal is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of net position.	
Revenue bonds	190,120
Other borrowings	9,443
Payment to escrow agent on refunded bonds	200,000
The amortization of bond premiums and discounts affects long-term liabilities on the statement of net position, but does not provide or use current financial resources to governmental funds.	
	33,574
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:	
Compensated absences	778
Pollution remediation	(14,306)
Accrued interest	(15,342)
Claims and judgments	27,611
Other post employment benefits	55,238
Net pension liability	(180,260)
Change in inventory for materials and supplies	1,133
Derivatives (liability), due to component and accrued accounts payable	(5,649)
Derivatives (assets and deferred outflows)	2,835
The amortization of collective deferred outflows and inflows of resources related to pensions affects change in net position, but does not provide or use current financial resources to governmental funds.	
Deferred outflows - pensions	315,766
Deferred inflows - pensions	113,751
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.	
	(3,074)
Changes in Net Position of Governmental Activities	<u>\$ (968,661)</u>

The notes to the financial statements are an integral part of this statement.



State of Kansas  
**Financial Statements**  
June 30, 2016

**Statement of Net Position - Proprietary Funds**  
**June 30, 2016**  
*(expressed in thousands)*

	Business-Type Activities					Governmental Activities - Internal Service Funds
	Water Funds	Unemployment Insurance	Health Care Stabilization	Nonmajor Funds	Total	
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$ 138,847	\$ 5,092	\$ 3,122	\$ 39,210	\$ 186,271	\$ 45,526
Restricted cash and cash equivalents	0	530,132	0	20,535	550,667	29,941
Investments	112,549	0	30,247	0	142,796	0
Investments, restricted	0	0	0	0	0	0
Receivables, net	50,737	15,541	2,494	16,698	85,470	5,736
Inventories	0	0	0	3,410	3,410	8,497
Total current assets	302,133	550,765	35,863	79,853	968,614	89,700
Noncurrent assets:						
Restricted cash and cash equivalents	9,922	0	0	0	9,922	0
Investments	28,929	0	0	15,277	44,206	0
Investments, restricted	21,248	0	251,696	0	272,944	0
Receivables, net	480,610	0	0	26,628	507,238	0
Capital assets not being depreciated	0	0	0	0	0	460
Capital assets (net of accumulated depreciation)	0	0	12	663	675	79,802
Total noncurrent assets	540,709	0	251,708	42,568	834,985	80,262
Total assets	842,842	550,765	287,571	122,421	1,803,599	169,962
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Deferred amounts on refunding	14,202	0	0	0	14,202	0
Deferred outflows - pensions	0	0	0	909	909	0
Total deferred outflows of resources	14,202	0	0	909	15,111	0
<b>LIABILITIES</b>						
Current liabilities:						
Accounts payable and other current liabilities	5,071	7,530	123	15,161	27,885	3,547
Unearned revenue	0	0	13,196	0	13,196	0
Due to other funds	0	0	0	5,411	5,411	1,114
Compensated absences	0	0	70	6	76	1,315
Portion of long-term liabilities	25,628	0	11,215	11,018	47,861	43,973
Total current liabilities	30,699	7,530	24,604	31,596	94,429	49,949
Noncurrent liabilities:						
Compensated absences	0	0	15	1	16	273
Claims and judgments	0	0	217,135	28,060	245,195	41,810
Bonds, notes and loans payable	274,451	0	0	23,554	298,005	38,573
Unearned lease revenue	0	0	0	819	819	0
Arbitrage rebate payable	0	0	0	340	340	0
Other noncurrent liabilities	11,733	0	4	6,496	18,233	0
Advances from other funds	0	0	0	0	0	1,767
Total noncurrent liabilities	286,184	0	217,154	59,270	562,608	82,423
Total liabilities	316,883	7,530	241,758	90,866	657,037	132,372
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Deferred inflows - pensions	0	0	0	630	630	0
<b>NET POSITION</b>						
Net investment in capital assets	0	0	12	663	675	39,892
Restricted for:						
Debt service	0	0	0	39,195	39,195	0
Other purposes	540,161	543,235	45,801	0	1,129,197	0
Unrestricted	0	0	0	(8,024)	(8,024)	(2,302)
Total net position	\$ 540,161	\$ 543,235	\$ 45,813	\$ 31,834	\$ 1,161,043	\$ 37,590

The notes to the financial statements are an integral part of this statement.

State of Kansas  
**Financial Statements**  
June 30, 2016

**Statement of Revenues, Expenses, and Changes in  
Fund Net Position - Proprietary Funds  
For the Fiscal Year Ended June 30, 2016**  
*(expressed in thousands)*

	Business-Type Activities					Governmental Activities - Internal Service Funds
	Water Funds	Unemployment Insurance	Health Care Stabilization	Nonmajor Funds	Total	
<b>Operating revenues:</b>						
Charges for services	\$ 1,543	\$ 342,521	\$ 27,575	\$ 640,344	\$1,011,983	\$ 91,429
Interest on loans	14,539	0	0	0	14,539	0
Other revenue	1,738	12,894	738	11,312	26,682	27,275
Total operating revenues	17,820	355,415	28,313	651,656	1,053,204	118,704
<b>Operating expenses:</b>						
Salaries and wages	0	0	1,425	6,088	7,513	25,881
Supplies and services	1,675	0	4,386	292,150	298,211	54,128
Lottery prize awards	0	0	0	157,301	157,301	0
Depreciation	0	0	6	320	326	9,559
Insurance claims and expenses	0	239,638	0	1,146	240,784	18,423
Program administration - Water Funds	1,648	0	0	0	1,648	0
Other expenses	8,031	11	32,632	23,082	63,756	95
Total operating expenses	11,354	239,649	38,449	480,087	769,539	108,086
<b>Operating income (loss)</b>	6,466	115,766	(10,136)	171,569	283,665	10,618
<b>Nonoperating revenues (expenses):</b>						
Operating grants	0	3,046	0	0	3,046	0
Capital grants	16,218	0	0	0	16,218	0
Investment earnings	3,620	10,415	14,386	952	29,373	45
Interest expense	(16,682)	0	0	(1,026)	(17,708)	(1,873)
Other revenues (expenses)	1,547	0	(226)	0	1,321	(340)
Total nonoperating revenues (expenses)	4,703	13,461	14,160	(74)	32,250	(2,168)
<b>Income before transfers</b>	11,169	129,227	4,024	171,495	315,915	8,450
Transfers in	0	561,172	2,912	0	564,084	7,762
Transfers out	0	(561,990)	(200)	(171,823)	(734,013)	(19,286)
<b>Change in net position</b>	11,169	128,409	6,736	(328)	145,986	(3,074)
Net position - beginning	528,992	414,826	39,077	32,162	1,015,057	10,723
Revisions to beginning net position	0	0	0	0	0	29,941
Net position - beginning (restated)	528,992	414,826	39,077	32,162	1,015,057	40,664
<b>Net position - ending</b>	\$ 540,161	\$ 543,235	\$ 45,813	\$ 31,834	\$1,161,043	\$ 37,590

The notes to the financial statements are an integral part of this statement.

State of Kansas  
**Financial Statements**  
June 30, 2016

**Statement of Cash Flows - Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2016**  
*(expressed in thousands)*

	Water Funds	Unemployment Insurance	Health Care Stabilization	Nonmajor funds	Total	Governmental Activities - Internal Service Funds
<b>Cash flows from operating activities:</b>						
Cash receipts from customers	\$ 0	\$ 363,849	\$ 29,012	\$ 650,722	\$ 1,043,583	\$ 119,699
Cash payments to suppliers for goods and services	(1,675)	(113)	(4,380)	(12,625)	(18,793)	(60,853)
Cash payments to employees for services	0	0	(1,467)	(6,080)	(7,547)	(25,915)
Cash payments for lottery prizes	0	0	0	(471,618)	(471,618)	0
Claims paid	0	(239,638)	(27,282)	(1,106)	(268,026)	(17,184)
Other operating revenues	3,294	0	0	128	3,422	0
Other operating expenses	(1,648)	0	0	(1,373)	(3,021)	0
Net cash provided (used) by operating activities	(29)	124,098	(4,117)	158,048	278,000	15,747
<b>Cash flows from noncapital financing activities:</b>						
Operating grants receipts	0	3,046	0	0	3,046	0
Other non-operating expenses	0	0	(226)	0	(226)	(340)
Advances from other funds	0	0	0	0	0	915
Net transfers to other funds	0	(818)	2,712	(171,823)	(169,929)	(11,524)
Other cash inflows from noncapital financing activities	20,718	0	0	0	20,718	0
Other cash outflows from noncapital financing activities	(77,456)	0	0	(20,132)	(97,588)	0
Net cash provided (used) by noncapital financing	(56,738)	2,228	2,486	(191,955)	(243,979)	(10,949)
<b>Cash flows from capital and related financing activities:</b>						
Repayment of long-term debt	0	0	0	0	0	(3,033)
Interest payments	0	0	0	0	0	(1,873)
Proceeds from sale of fixed assets	0	0	0	4	4	281
Payments for purchase of fixed assets	0	0	(1)	(685)	(686)	0
Net cash provided (used) by capital and related financing activities	0	0	(1)	(681)	(682)	(4,625)
<b>Cash flows from investing activities:</b>						
Proceeds from sale and maturities of investment securities	108,247	0	32,715	0	140,962	0
Purchase of investments	(95,141)	0	(39,311)	0	(134,452)	0
Cash receipts from customers	14,955	0	0	0	14,955	0
Interest and dividends	3,926	10,415	7,974	949	23,264	45
Other investing revenues	82,810	0	0	0	82,810	0
Other investing expenses	(39,029)	0	0	0	(39,029)	0
Net cash provided (used) by investing activities	75,768	10,415	1,378	949	88,510	45
Net increase (decrease) in cash and cash equivalents	19,001	136,741	(254)	(33,639)	121,849	218
Cash and cash equivalents, beginning of year	129,768	398,483	3,376	93,384	625,011	75,249
<b>Cash and cash equivalents, end of year</b>	<b>\$ 148,769</b>	<b>\$ 535,224</b>	<b>\$ 3,122</b>	<b>\$ 59,745</b>	<b>\$ 746,860</b>	<b>\$ 75,467</b>
<b>Reconciliation of operating income (loss) to net cash provided by operations:</b>						
Operating income (loss)	\$ 6,466	\$ 115,766	\$ (10,136)	\$ 171,569	\$ 283,665	\$ 10,618
<b>Adjustment to reconcile operating income to net cash provided (used) by operating activities:</b>						
Depreciation and amortization	0	0	6	320	326	9,559
Changes in assets and liabilities:						
Receivables	52,435	8,434	0	4,853	65,722	995
Inventories	0	0	0	0	0	(7,450)
Accounts payable	(194)	(102)	6	(3,771)	(4,061)	290
Payroll liabilities	0	0	(42)	(2)	(44)	(34)
Due to other funds	0	0	0	(330)	(330)	530
Claims and judgments	0	0	5,350	40	5,390	1,239
Unearned revenue	0	0	699	(5,655)	(4,956)	0
Net change in pension deferred outflows/inflows	0	0	0	(945)	(945)	0
Net pension liability	0	0	0	955	955	0
Refundable deposits	0	0	0	(11,000)	(11,000)	0
Lottery prize liability	0	0	0	2,014	2,014	0
Loan principal	(82,810)	0	0	0	(82,810)	0
Loans disbursed	39,029	0	0	0	39,029	0
Loan interest	(14,955)	0	0	0	(14,955)	0
Total adjustments	(6,495)	8,332	6,019	(13,521)	(5,665)	5,129
<b>Net cash provided (used) by operating activities</b>	<b>\$ (29)</b>	<b>\$ 124,098</b>	<b>\$ (4,117)</b>	<b>\$ 158,048</b>	<b>\$ 278,000</b>	<b>\$ 15,747</b>

The notes to the financial statements are an integral part of this statement.

State of Kansas  
**Financial Statements**  
June 30, 2016

**Statement of Net Position**  
**Fiduciary Funds**  
**June 30, 2016**  
*(expressed in thousands)*

	<u>Pension Trust</u>	<u>Investment Trust</u>	<u>Agency</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 18,597	\$ 951,007	\$ 304,978
Investments:			
Domestic equities	5,513,807	0	0
International equities	3,599,589	0	0
Short term	454,008	0	0
Fixed income	4,964,360	0	0
Alternative investments	761,716	0	0
Real estate	1,805,745	0	0
Certificates of deposit	0	0	125,463
Receivables, net	5,077,679	0	307,054
Capital assets	<u>2,365</u>	<u>0</u>	<u>181</u>
Total assets	<u>22,197,866</u>	<u>951,007</u>	<u>737,676</u>
<b>LIABILITIES</b>			
Accounts payable and other liabilities	<u>4,941,273</u>	<u>0</u>	<u>737,676</u>
Total liabilities	<u>4,941,273</u>	<u>0</u>	<u>\$ 737,676</u>
<b>NET POSITION</b>			
Net position held in trust	<u>\$ 17,256,593</u>	<u>\$ 951,007</u>	

The notes to the financial statements are an integral part of this statement.

State of Kansas  
**Financial Statements**  
June 30, 2016

**Statement of Changes in Net Position**  
**Fiduciary Funds**  
**For the Fiscal Year Ended June 30, 2016**  
*(expressed in thousands)*

	Pension Trust	Investment Trust
<b>ADDITIONS</b>		
Contributions:		
Employer contributions	\$ 1,781,048	\$ 0
Employee contributions	411,114	0
Total contributions	2,192,162	0
Investment earnings:		
Net appreciation (depreciation) in fair value in investments	(267,356)	592
Interest	137,879	0
Dividends	155,549	0
Real estate income	83,485	0
Other investment income	10,709	0
Total investment earnings	120,266	592
Less investment expense	70,907	0
Net investment earnings	49,359	592
MIP deposits	0	2,888,018
Other income	2,916	0
Total investment earnings	52,275	2,888,610
Total additions	2,244,437	2,888,610
<b>DEDUCTIONS</b>		
Benefits and refunds:		
Monthly benefits and refunds	1,548,363	0
Refunds of contributions	68,123	0
Death benefits	10,546	0
Insurance premiums and disability benefits	41,723	0
Distributions	0	2,993,247
Total benefits and refunds	1,668,755	2,993,247
Administrative expenses	12,769	0
Total deductions	1,681,524	2,993,247
Change in net position	562,913	(104,637)
Net position - beginning	16,693,680	1,055,644
<b>Net position - ending</b>	<b>\$ 17,256,593</b>	<b>\$ 951,007</b>

The notes to the financial statements are an integral part of this statement.

State of Kansas  
**Financial Statements**  
June 30, 2016

**Combining Statement of Net Position - Component Units**  
**June 30, 2016**

(expressed in thousands)

	Information Network of Kansas, Inc.	Kansas Turnpike Authority	Kansas Development Finance Authority	Kansas Housing Resources Corporation	Kansas Bioscience Authority	Kansas Center for Entrepre- neurship	State University System	Total
<b>ASSETS</b>								
Current assets:								
Cash and cash equivalents	\$ 4,605	\$ 75,703	\$ 144	\$ 807	\$ 4,989	\$ 14,088	\$ 693,291	\$ 793,627
Restricted cash and cash equivalents	0	10,742	0	3,281	0	0	133,574	147,597
Investments	0	38,028	13,142	11,022	33,504	1,303	144,796	241,795
Restricted investments	0	26,440	428	221	0	0	477,062	504,151
Receivables, net	2,805	6,640	30	1,234	57	14,636	334,226	359,628
Due from primary government	0	0	655	0	0	0	0	655
Inventories	0	0	0	0	0	0	14,820	14,820
Other assets	67	1,604	82	136	152	3	28,737	30,781
Total current assets	7,477	159,157	14,481	16,701	38,702	30,030	1,826,506	2,093,054
Noncurrent assets:								
Restricted cash and cash equivalents	0	0	0	13	0	0	60,978	60,991
Investments	0	28,415	0	0	0	0	349,562	377,977
Restricted investments	0	0	0	0	0	0	2,170,111	2,170,111
Receivables, net	0	0	0	1,669	0	0	187,328	188,997
Due from primary government	0	0	2,175	0	0	0	0	2,175
Capital assets not being depreciated	0	564,249	0	0	420	0	545,901	1,110,570
Capital assets (net of accumulated depreciation)	6	30,256	670	599	9,000	0	2,634,774	2,675,305
Other noncurrent assets	0	0	0	0	8,300	0	19,561	27,861
Total noncurrent assets	6	622,920	2,845	2,281	17,720	0	5,968,215	6,613,987
Total assets	7,483	782,077	17,326	18,982	56,422	30,030	7,794,721	8,707,041
<b>DEFERRED OUTFLOWS OF RESOURCES</b>								
Deferred amounts on refunding	0	3,664	0	0	0	0	9,707	13,371
Deferred outflows - pensions	0	1,731	211	248	0	0	25,994	28,184
Total deferred outflows of resources	0	5,395	211	248	0	0	35,701	41,555
<b>LIABILITIES</b>								
Current liabilities:								
Accounts payable and other liabilities	4,072	9,029	434	332	1,278	1,253	309,141	325,539
Unearned revenue	0	1,580	428	348	0	0	98,153	100,509
Compensated absences	0	2,458	0	623	0	0	66,926	70,007
Portion of long-term liabilities	0	13,075	655	0	658	0	75,630	90,018
Total current liabilities	4,072	26,142	1,517	1,303	1,936	1,253	549,850	586,073
Noncurrent liabilities:								
Compensated absences	0	1,054	0	0	0	0	13,361	14,415
Bonds, notes and loans payable	0	190,104	2,175	0	9,905	0	1,618,704	1,820,888
Arbitrage rebate liability	0	0	0	0	0	0	29	29
Other noncurrent liabilities	0	458	3,194	0	0	0	34,646	38,298
Net pension liability	0	14,752	1,285	3,640			248,344	268,021
Total noncurrent liabilities	0	206,368	6,654	3,640	9,905	0	1,915,084	2,141,651
Total liabilities	4,072	232,510	8,171	4,943	11,841	1,253	2,464,934	2,727,724
<b>DEFERRED INFLOWS OF RESOURCES</b>								
Deferred inflows - pensions	0	1,859	115	228	0	0	24,657	26,859
<b>NET POSITION</b>								
Net investment in capital assets	6	394,989	670	599	1,285	0	1,954,330	2,351,879
Restricted for:								
Capital projects	0	0	0	0	0	0	202,390	202,390
Debt service	0	33,529	0	0	0	0	31,444	64,973
Nonexpendable	0	0	0	0	0	0	1,191,275	1,191,275
Other purposes	0	0	0	3,839	5,873	0	1,571,645	1,581,357
Unrestricted	3,405	124,585	8,581	9,621	37,423	28,777	389,747	602,139
Total net position	\$ 3,411	\$ 553,103	\$ 9,251	\$ 14,059	\$ 44,581	\$ 28,777	\$ 5,340,831	\$ 5,994,013

The notes to the financial statements are an integral part of this statement.

State of Kansas  
**Financial Statements**  
June 30, 2016

**Combining Statement of Activities-Component Units**  
**For the Fiscal Year Ended June 30, 2016**  
*(expressed in thousands)*

	Information Network of Kansas, Inc.	Kansas Turnpike Authority	Kansas Development Finance Authority	Kansas Housing Resources Corporation	Kansas Bioscience Authority	Kansas Center for Entrepre- neurship	State University System	Total
<b>Expenses:</b>								
Salaries and wages	\$ 208	\$ 20,439	\$ 1,089	\$ 3,327	\$ 2,555	\$ 0	\$ 1,641,101	\$ 1,668,719
Supplies and services	302	47,449	593	1,562	1,321	1,086	610,820	663,133
Depreciation and amortization	1	2,989	114	109	486	0	165,396	169,095
Interest expense	0	10,039	3	0	0	0	48,320	58,362
Other expenses	0	0	0	78,951	10,384	1,767	357,073	448,175
Total expenses	511	80,916	1,799	83,949	14,746	2,853	2,822,710	3,007,484
<b>Program Revenues:</b>								
Charges for services	953	113,960	1,776	3,864	393	3,560	1,217,424	1,341,930
Operating grants	0	1,681	0	78,834	0	3	551,774	632,292
Capital grants	0	0	0	0	0	0	66,527	66,527
Total program revenues	953	115,641	1,776	82,698	393	3,563	1,835,725	2,040,749
<b>Net (Expense) Revenue</b>	442	34,725	(23)	(1,251)	(14,353)	710	(986,985)	(966,735)
<b>General Revenues:</b>								
Taxes:								
Property tax	0	0	0	0	0	0	7,357	7,357
Investment earnings	2	1,381	318	350	390	546	17,670	20,657
Other revenue (loss)	0	1,057	6	2,284	(11,356)	72	1,072,836	1,064,899
Total general revenues	2	2,438	324	2,634	(10,966)	618	1,097,863	1,092,913
<b>Change in net position</b>	444	37,163	301	1,383	(25,319)	1,328	110,878	126,178
Total net position - beginning	0	515,940	8,950	12,676	69,900	27,449	5,229,953	5,864,868
Revisions to beginning net position	2,967	0	0	0	0	0	0	2,967
Total net position - beginning (restated)	2,967	515,940	8,950	12,676	69,900	27,449	5,229,953	5,867,835
<b>Total net position - ending</b>	\$ 3,411	\$ 553,103	\$ 9,251	\$ 14,059	\$ 44,581	\$ 28,777	\$ 5,340,831	\$ 5,994,013

The notes to the financial statements are an integral part of this statement.

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## **I. Summary of Significant Accounting Policies**

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The accompanying financial statements of the State of Kansas (the “State”) have been prepared in conformance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the standard setting body for governmental accounting and financial reporting principles.

### **A. Financial Reporting Entity**

The accompanying financial statements present the financial position of the State and the various funds and fund types, the results of operations of the State and the various funds and types, and the cash flows of the proprietary funds. The financial statements are presented as of June 30, 2016, and for the year then ended. The financial statements include the various agencies, boards, commissions, public trusts and authorities and any other organizational units governed by the Kansas State Legislature and/or Constitutional Officers of the State.

The State has considered all potential component units for which it is financially accountable, organizations that raise and hold economic resources for the State, and other organizations for which the nature and significance of their relationship with the State are such that exclusion would cause the State’s financial statements to be misleading or incomplete.

As required by generally accepted accounting principles, these financial statements present the State (the primary government) and its component units.

The accompanying financial statements present the activities of State government (the primary government), which is comprised of three branches: the Executive Branch, with the Governor as chief executive; the Legislative Branch, consisting of a Senate of 40 members and a House of Representatives of 125 members; and the Judicial Branch, which includes the Supreme Court, the Appeals Court, and the District Trial Courts.

### **Discrete Component Units**

Discrete component units are entities that are legally separate from the State, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State’s financial statements to be misleading or incomplete. The component units are reported in a separate column to emphasize that they are legally separate from the primary government and are governed by separate boards.

Following is a table identifying each discretely presented component unit followed by a brief description of each component unit. Complete financial statements for each of the individual component units may be obtained from their respective administrative offices at the noted addresses.



State of Kansas  
**Notes to the Financial Statements**  
June 30, 2016

## I. Summary of Significant Accounting Policies

<b><u>Component Unit</u></b>	<b><u>Description: Criteria for Inclusion</u></b>	<b><u>Reporting Method</u></b>	<b><u>For Separate Financial Statements</u></b>
Kansas Turnpike Authority (KTA)	The State has oversight responsibility of day-to-day operations and administration of KTA. The State also has the power to impose its will on KTA.	Reported as a discrete component unit, because the board is not the same and services are provided to other entities.	Kansas Turnpike Authority 9401 E. Kellogg Wichita, Kansas 67207
Kansas Development Finance Authority (KDFA)	The State appoints a voting majority of the board of KDFA and has the power to impose its will on KDFA.	Reported as a discrete component unit, because the board is not the same and services are provided to other entities.	Kansas Development Finance Authority 534 S. Kansas Avenue, Suite 800 Topeka, Kansas 66603
Kansas Housing Resources Corporation (KHRC)	KHRC is a subsidiary corporation of KDFA and a legal entity separate and distinct from KDFA and the State.	Reported as a discrete component unit because the board is not the same and services are provided to other entities.	Kansas Housing Resources Corporation 611 S. Kansas Avenue, Suite 300 Topeka, Kansas 66603
Kansas Center for Entrepreneurship (KCE)	The State appoints a voting majority of KCE and has the power to impose its will on KCE	Reported as a discrete component unit because the board is not the same and services are provided to other entities.	Kansas Center for Entrepreneurship P.O. Box 877 Andover, Kansas 67002
State University System	The State appoints a voting majority of the Kansas Board of Regents which controls the State universities, and has the power to impose its will on the State universities through the budgeting process.	Reported as a discrete component unit because the board is not the same and services are provided to other entities.	The Kansas Board of Regents does not issue separate financial statements. For separate financial statements of a university, contact the respective university or:  Kansas Board of Regents 1000 SW Jackson St., Suite 520 Topeka, KS 66612-1368
Kansas Bioscience Authority (KBA)	The State appoints a voting majority of KBA and has the power to impose its will on KBA.	Reported as a discrete component unit because the board is not the same and services are provided to other entities.	Kansas Bioscience Authority 25501 West Valley Parkway, Ste 100 Olathe, KS 66061
Kansas Public Employees Retirement System (KPERS)	The State appoints a voting majority of KPERS and has the power to impose its will on KPERS.	Although KPERS is a component unit of the State of Kansas, it is reported as a fiduciary pension trust fund.	Kansas Public Employees Retirement System 611 S. Kansas Ave., Suite 100 Topeka, KS 66603-3803
Information Network of Kansas, Inc. (INK)	The State appoints a voting majority of INK and has the power to impose its will on INK.	Reported as a discrete component unit because the board is not the same and services are provided to other entities.	Information Network of Kansas, Inc. 300 SW 8th Ave, Suite 300 Topeka, KS 66603

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## I. Summary of Significant Accounting Policies

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**Kansas Turnpike Authority (KTA)** was established as a public corporation in 1953 by the Kansas Legislature. Its enabling statutes are found in K.S.A. 68-2001 et seq., as amended and supplemented. K.S.A. 68-2003 was amended during the State of Kansas' 2013 and 2015 legislative sessions. The legislative amendment changed the reporting requirement for the State of Kansas. KTA is now reported as a discretely presented component unit. Prior to the 2013 legislative session KTA was not included as a State reporting entity. The amendment named the Secretary of Transportation of the State of Kansas as the director of the Authority, effective July 1, 2013. The director is responsible for the daily administration of the toll roads, bridges, structures and facilities constructed, maintained or operated by the Authority. While the Authority retains its separate identity, powers and duties as an instrumentality of the State, the amendment requires duplication of effort, facilities, and equipment between the Kansas Department of Transportation and the Authority be minimized in operation and maintenance of turnpikes and highways of the State.

KTA was created to construct, operate and maintain turnpike projects and to issue revenue bonds for any of its corporate purposes, payable solely from the tolls and revenue pledged for their payment.

**Kansas Development Finance Authority (KDFA)** was established by Chapter 57, 1987 Session Laws of Kansas. Its enabling statutes are found in K.S.A. 74-8901 et seq., as amended and supplemented. KDFA is a public body politic and corporate, constituting an independent instrumentality of the State. KDFA was created to enhance the ability of the State to finance capital improvements and improve access to long-term financing for State agencies, political subdivisions, public and private organizations, and businesses.

**Kansas Housing Resources Corporation (KHRC)** was formed pursuant to K.S.A. 74-8904(v) per the Governor's Executive Reorganization Order #30. KHRC is a subsidiary corporation of the Kansas Development Finance Authority. KHRC's mission is to enhance Kansas communities with housing opportunities. This goal is achieved through using a variety of strategies and approaches, including increasing homeownership opportunities, leveraging the construction of more affordable rental housing, promoting energy efficient improvements for owner-occupied and rental housing, providing affordable housing through rental assistance to low-income families and senior citizens, and creating housing opportunities for previously underserved persons and communities.

**Kansas Center for Entrepreneurship (KCE)** is an independent instrumentality of the State. Its enabling statutes are found in K.S.A. 74-99c-01 through 74-99c-11 et seq., as amended and supplemented. KCE was created with the passage of the Kansas Growth Act. KCE was created for the purpose of promoting an entrepreneurial environment in Kansas by providing expertise, education, and economic resources to small business owners. The economic resources are provided in the form of low interest and/or reduced collateral loans and grants. These funds may only be accessed by working with a local or regional non-profit business support provider, who partners with KCE in providing a local match to the funds being provided.

**Kansas Bioscience Authority (KBA)** is an independent instrumentality of the State. Its enabling statutes are found in K.S.A. 74-99b01 et seq. as amended and supplemented. KBA was created on April 19, 2004 with the passage of the Kansas Economic Growth Act of 2004, a comprehensive economic development act designed to meet the needs of the changing Kansas economy. KBA was created to make Kansas the most desirable state in which to conduct, facilitate, support, fund and perform bioscience research, development of commercialization, to make Kansas a national leader in bioscience, and to create jobs, foster economic growth, advance scientific knowledge and improve the quality of life for the citizens of the State.

**State University System** The Kansas State Board of Regents, created in 1859 by adoption of the State Constitution, is responsible for control and supervision of public institutions of higher education which benefit the State. The Kansas Board of Regents is a legally separate body composed of nine members appointed by the Governor. The Board supervises all State universities while budgetary decisions are exercised at the State level. The State university system consists of the Board's administrative arm and six constituent universities. Funding for the State university system is accomplished primarily by State appropriations, tuition and fees, sales and services, federal and state grants, and private donations and grants.

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## I. Summary of Significant Accounting Policies

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In addition to the Kansas Board of Regents' administrative arm, the following universities and their respective component units make up the State university system for financial reporting purposes: University of Kansas, including the University of Kansas Medical Center; Kansas State University; Wichita State University; Emporia State University; Pittsburg State University; and Fort Hays State University. Each university issues its own complete unaudited financial statements which can be obtained from the respective university. The Kansas Board of Regents' administrative arm does not issue separate financial statements.

**Kansas Public Employees Retirement System (KPERs)** is a body corporate and an instrumentality of the State. KPERs is an umbrella organization administering the following three statewide pension groups under one plan, as provided by the Kansas Statutes Chapter 74, article 49:

- Kansas Public Employees Retirement System
- Kansas Police and Firemen's Retirement System
- Kansas Retirement System for Judges

All three systems are part of a tax-exempt, defined benefit, contributory plan covering substantially all public employees in Kansas. The Kansas Retirement System for Judges is a single employer group, while the other two are multi-employer, cost-sharing groups. State employees and Kansas schools are required to participate, while participation by local political subdivisions is optional but irrevocable once elected.

**Information Network of Kansas, Inc. (INK)** was created by K.S.A. 74-9301 et seq. in 1990 by the State of Kansas legislature to provide electronic access for members of the public to public information of agencies by means of a centralized electronic information system, to develop and expand the system and to provide oversight of the network manager. INK is governed by a ten-member Board of Directors with membership on the board established by statute.

### **B. Government-wide and Fund Financial Statements**

**Government-wide Statements** – The statement of net position and the statement of activities report information of the primary government and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the duplication of internal activities. These statements distinguish between the *governmental* and *business-type* activities of the State and between its discretely presented component units. Governmental activities are generally supported by taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are supported in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the State and for each function of the State's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

The State classifies spending by function of government and by category of expenditure. Function of government is a grouping of agencies, which make expenditures for similar programs and purposes. There are seven functions of government: (1) general government; (2) human resources; (3) education; (4) public safety; (5) agriculture and natural resources; (6) highways and other transportation; and (7) health and environment. *General Government* includes State agencies with both administrative and regulatory functions. These agencies include the State's elected officials and the Department of Administration. *Human Resources* agencies provide services to individuals. *Education* agencies provide various educational services to Kansans. *Public Safety* agencies ensure the safety and

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## I. Summary of Significant Accounting Policies

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security of Kansas' citizens. *Agriculture and Natural Resources* agencies protect the natural and physical resources of the State and regulate the use of those resources. *Highways and other transportation* includes only the Department of Transportation. Responsibilities of this agency include maintenance and construction of highways in Kansas. The *Health and Environment* agency optimizes the promotion and protection of the health of Kansans through efficient and effective public health programs and services and through preservation, protection, and remediation.

Net position is restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions. Internally imposed designations of resources are not presented as restricted net position. When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first, then unrestricted resources as they are needed.

**Fund Financial Statements** – The fund financial statements provide information about State funds, including fiduciary funds. Separate statements for each fund category – *governmental*, *proprietary*, and *fiduciary* are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

### C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Non-exchange transactions, in which the State gives (or receives) value without directly receiving (or giving) equal value in exchange, include income and sales taxes, grants, entitlements, and donations. On an accrual basis, revenue from income and sales taxes is recognized in the fiscal year the underlying exchange occurred, while revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The State considers all revenues reported in the governmental funds to be available if the revenues are due at year-end and collected within sixty days thereafter. Expenditures generally are recorded when the related liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the State funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the policy of the State to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

The financial statements of the proprietary funds, pension funds, investment funds, and component units are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

### D. Fund Accounting

The financial activities of the State are recorded in individual funds, each of which is deemed to be a separate accounting entity. The State uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and aid financial management by segregating transactions

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## I. Summary of Significant Accounting Policies

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related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

The financial activities of the State that are reported in the accompanying financial statements have been classified into the following major governmental and proprietary funds. In addition, a description of the internal service, fiduciary and component units follows:

### **Governmental Funds:**

These funds include the State's main operating fund, special revenue funds, capital projects funds, and debt service funds. The following are the State's major governmental funds:

**General Fund** – This is the primary operating fund of the State. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Social Services Fund** – This special revenue fund accounts for the activities of the Department for Aging and Disability Services and the Department for Children and Families. Revenues into this special revenue fund include grants and special fee funded programs as authorized by legislation.

**Health and Environment Fund** – This special revenue fund includes all health insurance purchasing by the State, as well as federally funded programs (Medicaid, State Children's Health Insurance Program and Medikan) and the State Employee Health Insurance Program. Revenues into this special revenue fund include grants and special fee funded programs as authorized by legislation.

**Education Fund** – This special revenue fund accounts for the activities of the Department of Education. Revenues into this fund include property taxes and grants as authorized by legislation.

**Transportation Fund** – This special revenue fund is the primary operating fund of the Kansas Department of Transportation (KDOT) and accounts for all KDOT financial resources except those required to be accounted for in another fund. KDOT has the statutory responsibility to coordinate planning, development and operation of the various modes and systems of transportation in the State.

### **Proprietary Funds:**

These funds account for those activities for which the intent of management is to recover, primarily through user charges, the cost of providing goods or services to the general public, or where sound financial management dictates that periodic determinations of results of operations are appropriate. The State reports the following major enterprise funds and collective governmental internal service funds:

**Water Funds** – This fund accounts for the Water Pollution Control and Public Water Supply Revolving Loan funds controlled by the Department of Health and Environment.

**Unemployment Insurance Fund** – This fund accounts for unemployment insurance for the deposit of moneys requisitioned for the Kansas Unemployment Insurance Trust Fund held by the U.S. Treasury for payment of unemployment benefits.

**Health Care Stabilization Fund** – This fund accounts for moneys accumulated to pay damages for personal injury or death arising out of the rendering of or the failure to render professional services by a health care provider, self-insurer or inactive health care provider subsequent to the time that such health care provider or self-insurer qualified for coverage under the provisions of this program.

**Internal Service Funds** - These funds account for printing, information technology, accounting, motor pool, aircraft, building maintenance, wildlife architectural, personnel services, workers' compensation, GIS services and capital security services provided to other departments on a cost-reimbursement basis.

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## I. Summary of Significant Accounting Policies

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### **Fiduciary Funds:**

The State presents as Fiduciary Funds those activities that account for assets held in a trustee capacity or as an agent for individuals, private organizations, or other governmental units.

***Pension Trust Fund*** - This fund is used to account for the assets, liabilities, and fund equities held in trust for the Kansas Public Employees Retirement System.

***Investment Trust Fund*** – This fund is used to account for the assets, liabilities, and fund equities held in trust for the Kansas Municipal Investment Pool.

***Agency Funds*** - These funds account for assets held by the State in a custodial capacity or as an agent for individuals, private organizations, other governmental units and/or other funds.

The effect of interfund activity has generally been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. General revenues include all taxes and internally dedicated resources.

Proprietary funds distinguish between operating and non-operating revenues and expenses. Operating revenues and expenses are generated from providing services or products in connection with the enterprise operations of the funds.

### **E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Fund Equity**

#### ***Cash and Investments***

Cash balances of funds in the State Treasury are pooled and are held in a general checking account and other special purpose bank accounts. The available cash balances beyond immediate need are pooled for short-term investment purposes by the Pooled Money Investment Board (PMIB) and are reported at fair value, based on quoted market prices.

For purposes of reporting cash flows, cash equivalents are defined as short-term, highly liquid investments that are readily convertible to cash.

The investment policies of the PMIB are governed by State statutes. The primary objectives are to attain safety, liquidity, and yield. Allowable investments for State pooled moneys not held in Kansas financial institutions are as follows:

- Direct obligations of, or obligations except mortgage backed securities, that are insured as to principal and interest by the U.S. Government, or any direct agency thereof, with maturities up to four years
- Repurchase agreements with Kansas banks or with primary government securities dealers
- Loans as mandated by the Kansas Legislature limited to not more than the greater of 10 percent or \$140 million of total investments
- Certain Kansas agency and IMPACT Act projects and bonds
- Linked deposit loans for agricultural production not to exceed \$60 million
- Linked deposit loans for Kansas Housing Loan Deposit Program, Designated and Undesignated not to exceed \$60 million
- Loans to Local Taxing Districts (K.S.A 79-2005) not to exceed \$50 million

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## I. Summary of Significant Accounting Policies

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- High grade commercial paper
- High grade corporate bonds

*Specific Fund Investments* – State statutes permit investing cash balances not included in the PMIB in the following types of investments:

- U.S. Government obligations
- Mortgage backed securities
- Corporate securities
- U.S. Government agency securities
- Repurchase agreements
- Commercial paper not to exceed 270 days to maturity and rated within the two highest commercial paper ratings
- State of Kansas agency bonds, with maturities not to exceed four years

In addition to the above investments, short-term bond proceeds may be invested at the direction of KDFA through the PMIB.

*Kansas Municipal Investment Pool* - The Kansas Municipal Investment Pool (MIP) was created on July 1, 1992, as a voluntary, State-managed investment alternative for State and local funds. The Office of the Kansas State Treasurer (Treasurer) acts as the custodian for all moneys deposited. All Kansas governmental units, including cities, counties, school districts and other governmental entities holding public moneys are eligible to participate in the MIP. The deposits in the MIP are combined with State moneys to form the Pooled Money Investment Portfolio.

*Kansas Public Employees Retirement System (KPERS) Investments* - KPERS investment categories, as permitted by statute, include equities, fixed income securities, cash equivalents, real estate, derivative products and alternative investments. KPERS values its investments at fair value. In fulfilling its responsibilities, the Board of Trustees contracts with investment management firms and a master global custodian.

*Fair Value of Investments* – For the year ended June 30, 2016, the State implemented GASB 72, Fair Value Measurement and Application, which establishes a framework for measuring fair value using a consistent definition of fair value, accepted valuation techniques and enhances disclosures about fair value measurements. Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction. There is a fair value hierarchy which requires an entity to maximize the use of observable inputs when measuring fair value. The guidance requires three levels of fair value measurement based on the respective inputs.

*Investment Income Allocation* – State statutes require interest earned to be credited to the State General Fund unless required by law to be credited based on average daily balance to a specific fund.

### ***Receivables and Payables***

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to / from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to / from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

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## I. Summary of Significant Accounting Policies

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Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Receivables are stated net of estimated allowance for uncollectible amounts, which are determined, based upon past collection experience and current economic conditions. Student tuition and fees receivables are recorded at rates established at the time a student registers classes. Provisions for uncollectable student accounts are recorded to maintain an adequate allowance for anticipated losses. Net realizable value (NRV) is the actuarial devaluation method of taxes receivable at the Kansas Department of Revenue. NRV is a complex algorithmic formula, based upon debt size, age, whether the debt is filed or assessed, and historical collections. As debts age, the ability to collect the debt at face value decreases exponentially. The application of NRV on taxes receivable uses the collectability of the debt over time to determine a realistic current value.

### *Inventories*

Inventories are valued at cost using the first in/first out (FIFO) method. Inventories in the government-wide financial statements are accounted for using the consumption method. Inventories in the governmental funds financial statements are on the purchases method. The purchases method provides that inventory be treated as expenditure when purchased. Consumable supplies are reported only if over \$200,000 per agency.

The governmental funds statements have a current financial resources focus. As a result, modified accrual adjustments to capitalize inventory at year-end, affect beginning fund balance rather than expenditures. The focus on current financial resources is better maintained by not adjusting the expenditures for the amount of inventory reclassified to the balance sheet. The government-wide statements, however, require the full accrual adjustment to expenditures to properly reflect the amount of inventory consumed during the fiscal year.

### *Restricted Assets*

Certain resources are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by bond requirements. The Unemployment Insurance Fund was established by law as a special fund separate and apart from all public money or funds of the State. The cash is maintained in a separate bank account with the U.S. Treasury.

### *Capital Assets*

Capital assets are reported at actual or estimated historical cost. Contributed assets are reported at estimated fair value at the time received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Construction in process is capitalized. Capitalization policies (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	Capitalization Policy	Depreciation Method	Estimated Useful Life
Land	\$100,000	Not applicable	Not applicable
Buildings and leasehold improvements	100,000	Straight-line	40 years
Furnishings and equipment	5,000	Straight-line	8 years
Automobiles	5,000	Straight-line	5 years
Intangibles, software	250,000	Straight-line	8 years
Intangibles, other	250,000	Straight-line	50 years



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## **I. Summary of Significant Accounting Policies**

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The depreciation method is straight line with no salvage value. Accumulated depreciation is calculated in total by class of assets by year using the one half year convention in year of purchase. No depreciation is recorded for land and construction in progress.

Works of art and historical items are not capitalized. It is the intent of the State that all art works and historical objects be held for the purpose of exhibition to the public to further education and research. It is also the intent to preserve and protect such items to insure their availability to future generations. If any items are sold from any collection, the proceeds from such disposition are intended to be set aside for future acquisitions for the collections.

### ***Infrastructure***

The roadway system and bridge system are reported using the modified approach. Accordingly, depreciation is not reported for these systems, and all expenditures, except for additions and improvements are expensed.

### ***Compensated Absences***

Classified State employees accrue vacation leave based on the number of years employed up to a maximum rate of 6.5 hours per pay period, and may accumulate a maximum of 240 hours. Upon retirement or termination, employees are paid for accrued vacation leave up to their maximum accumulation. State employees earn sick leave at the rate of 3.7 hours per pay period. Employees who terminate are not paid for unused sick leave. Employees who retire are paid a portion of their unused sick leave based on years of service and hours accumulated. The State uses the vesting method to compute the sick leave liability. The compensated absences liability will be liquidated by the State's governmental and internal service funds.

### ***Bonds and Notes Payable***

Bonds and notes payable consist of notes and bonds issued to finance capital improvements for various projects. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt is reported as a liability in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are capitalized and amortized over the term of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, during the current period. The face amount of bond debt issued is reported as other financing sources. Premiums and discounts on debt issuances are reported as other financing sources and uses. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as debt service expenditures/expenses.

### ***Other Long-term Obligations***

Other long-term obligations consist of claims and judgments, capital leases payable, and other miscellaneous long-term obligations. In the government-wide financial statements, and proprietary fund types in the fund financial statements, other long-term obligations are reported as a liability in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

### ***Pensions***

The net pension liability is calculated as the difference between the actuarially calculated value of the projected benefit payments attributed to past periods of employee service and the plan's fiduciary net position. The total pension expense is comprised of the service cost or actuarial present value of projected benefit payments attributed to the valuation year, interest on the total pension liability, plan administrative expenses, current year benefit changes, and other changes in plan fiduciary net position less employee contributions and projected earnings on plan

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## I. Summary of Significant Accounting Policies

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investments. Additionally, the total pension expense includes the annual recognition of outflows and inflows of resources due to pension assets and liability.

For purposes of measuring the collective net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Kansas Public Employees Retirement System (KPERS) and additions to/deductions from KPERS' fiduciary net position have been determined on the same basis as they are reported by KPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

### ***Deferred Inflows of Resources/Deferred Outflows of Resources***

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The State has three items that qualify for reporting in this category. First is the deferred charge on refunding reported in the balance sheet. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. The amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Second is the accumulated decrease in fair value of hedging derivatives. Last is deferred outflows for pensions, which is discussed in Note IV. E.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The State has two items that qualify for reporting in this category: unavailable revenue and the deferred inflows for pensions. Unavailable revenue, which arises only under a modified accrual basis of accounting, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from sales, income and excise taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. See Note IV. E. for more information on the deferred inflows for pensions.

### ***Fund Equity***

In accordance with GASB Statement No. 54, items that cannot be spent or are not in spendable form, such as inventories or prepaid amounts, in governmental funds, are shown as nonspendable fund balance. Most governmental funds balances are restricted externally by creditors, (for example debt covenants), grantors, or are restricted by law through legislation, therefore the State reports the majority of the governmental fund balances as restricted fund balance. For assigned fund balance, the State is authorized to assign amounts to a specific purpose. The authorization to assign fund balances is delegated by the State legislature to each agency as appropriate. The State General Fund reports the fund balance amount that is not nonspendable, restricted or assigned as unassigned fund balance.

Per K.S.A. 75-6702(b), the maximum amount of expenditures and demand transfers from the state general fund that may be authorized is fixed so that there will be an ending balance in the State general fund for the ensuing fiscal year that is equal to 7.5 percent or more of the total amount authorized to be expended or transferred by demand transfer from the State general fund in such fiscal year. Per K.S.A. 75-6702 (c), the provisions in subsection (b) were suspended for the fiscal year ending June 30, 2016 and the fiscal year ending June 30, 2017, and shall not prescribe a maximum amount of expenditures and demand transfers from the state general fund that may be authorized by act of the legislature during the 2015 or 2016 regular session of the legislature.

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## **I. Summary of Significant Accounting Policies**

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For classification of fund balances, the State considers restricted amounts to have been spent first when an expenditure is incurred for the purposes for which both restricted and unrestricted fund balance is available. Expenditures are to be spent from restricted fund balance first, followed by assigned and lastly unassigned.

### **F. Use of Estimates**

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used in preparing the financial statements.

### **G. New Governmental Accounting Standards Board Statements**

The State has implemented the following new pronouncements for fiscal year 2016:

GASB Statement No. 72, "Fair Value Measurement and Application" addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. See Note III. A. for the impact of implementing Statement No. 72 on the State's fair value disclosures..

GASB Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments" was issued to identify the hierarchy of generally accepted accounting principles (GAAP). This Statement supersedes Statement No. 55, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments". Adoption of this statement had no impact on the State's financial position.

At June 30, 2016, the Governmental Accounting Standards Board (GASB) had issued several statements not yet effective for or implemented by the State. The State plans to implement the provisions of these statements on or before their effective dates. Management has not yet determined the impact these new statements will have on the State's financial statements.

The State will implement the following new pronouncements for fiscal years ending after June 30, 2016:

GASB Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to certain Provisions of GASB Statements No. 67 and 68" establishes requirements for defined benefit and defined contribution pensions that are not within the scope of Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. This statement also amends certain provisions of Statements No. 67 and 68 for pensions that are within their respective scopes related to the 10-year schedules of required supplementary information about investment related factors that significantly affect trends in the reported amounts, accounting and financial reporting separately financed specific liabilities of individual employers or nonemployer contributing entities and timing of employer recognition of revenue for support of nonemployer contributing entities not in a special funding situation. The provisions of this statement are effective for financial statements for the State's fiscal year ending June 30, 2017 for requirements of this statement addressing accounting and financial reporting for employers and nonemployer contributing entities for pensions not within the scope of Statement 68, June 30, 2017 for requirements of the statement that addressing financial reporting for assets accumulated for purposes of providing those pensions and June 30, 2017 for requirements of this statement for pensions that are within the scope of Statements 67 and 68.

GASB Statement No. 74, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans" establishes financial reporting standards for state and local governmental OPEB plans that are administered through

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## **I. Summary of Significant Accounting Policies**

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trusts or equivalent arrangements and for governments that hold assets accumulated for purposes of providing OPEB through defined benefit OPEB plans that are not administered through a trusts or equivalent arrangement. The provisions of this statement are effective for financial statements for the State's fiscal year ending June 30, 2017.

GASB Statement No. 75, "Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions" replaces the requirements of GASB Statement No. 45, Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions and requires governments to report a liability on the face of the financial statements for the OPEB that they provide. Statement No. 75 requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements. The provisions of this statement are effective for financial statements for the State's fiscal year ending June 30, 2018.

GASB Statement No. 77, "Tax Abatement Disclosures" requires governments that enter into tax abatement agreements to disclose a description of the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanisms by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients. Also required to be disclosed is the gross dollar amount of taxes abated during the period and commitments made by the government, other than to abate taxes, as part of a tax abatement agreement. The provisions of this statement are effective for financial statements for the State's fiscal year ending June 30, 2017.

GASB Statement No. 78, "Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans", amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information. The provisions of this statement are effective for financial statements for the State's fiscal year ending June 30, 2017.

GASB Statement No. 79, "Certain External Investment Pools and Pool Participants", addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purpose. This statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. The provisions of this statement are effective for financial statements for the State's fiscal year ending June 30, 2017.

GASB Statement No. 80, "Blending Requirements for Certain Component Units", amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, Determining Whether Certain organizations Are Component Units. The provisions of this statement are effective for financial statements for the State's fiscal year ending June 30, 2017.

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## **I. Summary of Significant Accounting Policies**

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GASB Statement No. 81, “Irrevocable Split-Interest Agreements” improves the accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The government that receives resources pursuant to an irrevocable split-interest agreement must recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. The government must also recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interest. Revenue must be recognized when the resources become applicable to the reporting period. The provisions of this statement are effective for financial statements for the State’s fiscal year ending June 30, 2018.

GASB Statement No. 82, “Pension Issues”, addresses certain issues that have been raised with respect to Statement No. 67, Statement No. 68 and Statement No. 73. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in the Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions of this statement are effective for financial statements for the State’s fiscal year ending June 30, 2017.

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## **II. Stewardship, Compliance, Accountability**

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### **A. Deficit Fund Equity**

The General Fund had a deficit fund balance in fiscal year 2016 because expenditures paid out of the fund exceed revenues received into the fund. See Note IV. H. for information on how this deficit will be addressed.

The Transportation – Capital Projects Fund had a deficit fund balance in fiscal year 2016 because aggregate bonds payable on demand exceeded cash and investments in the fund. Since the bonds are payable on demand, they are required to be reported as a liability. The deficit fund balance will be recovered as debt service payments are made on the demand bonds.

The Workers' Compensation Fund had a deficit net position in fiscal year 2016 because historical claims and expenses paid out of the fund exceeded charges for services received. During 2016, charges for services received did not exceed claims paid, increasing the deficit net position. The State will continue to monitor the activity of this fund.

The Lottery Fund had a deficit net position in fiscal year 2016 due to the implementation of GASB Statement No. 68 and the recording of the Lottery's share of the KPERS' collective net pension liability. As the State continues to take action to improve KPERS long-term sustainability, the unfunded liability will be reduced which will impact the Lottery Fund deficit net position.

The State Workers Compensation Fund had a deficit net position in fiscal year 2016 because of historical claims exceeding the internal charges made to the other State's funds. Current year internal charges did not exceed claims paid, increasing the negative net position. The State operates this fund as a pay as you go fund because future claims may take years to materialize. This is what has caused negative net position in the past and future years. Future claims would be covered with future collections from other State Agencies.

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### III. Detailed Notes On All Funds

#### A. Deposits and Investments

A summary of deposits and investments at June 30, 2016, is as follows (expressed in thousands):

	Governmental & Business - Type Activities	Weighted Average Duration	Fiduciary	Weighted Average Duration	Component Unit	Weighted Average Duration
US Treasury	\$ 45,107	3.51	\$ 2,005,355	5.91	\$ 99,818	1.40
U.S Agencies securities	779,882	1.91	677,663	1.89	180,157	1.86
Government Sponsored Entity	0		0		4,383	90 dyas-1yr
Repurchase Agreements	682,036	0.20	287,085	<year	3,578	<yr
Investment Contract	35,828	7.09	0		1,419	>10yrs
Mutual Fund-Fixed Income	0		0		13,088	<year
Mutual Fund-Equities	0		0		48,083	
Equity Securities	98,432		10,107,374		12,469	0.34
Commercial Paper	873,564	<1yr	362,984	0.08	0	
Corporate Bonds	309,843	5.66	2,012,548	5.35	63,167	1.65
Non-marketable securities issued by the US Treasury	0		0		0	
Alternative Investment	0		0		1,478	
Municipal securities	89,915	<1yr	0		3,877	4.17
Foreign Issues	0		0		0	
Securities Lending Collateral	0		0		0	
Venture capital limited partnership	0		0		9,698	
University assets reported under FASB*	0		0		2,657,042	
Other Investment	0		2,567,461		153,128	
Treasurer's pool	(873,201)		289,683		583,518	
Cash and cash equivalents	639,486		189,117		461,346	
	<u>\$ 2,680,892</u>		<u>\$ 18,499,270</u>		<u>\$ 4,296,249</u>	

\*The State University System's component unit investments minimize risks for credit, interest and concentration of credit per specific investment policies which include U.S. Treasury securities or obligations explicitly guaranteed by the U.S. government.

The State University System component unit also reports the investments related to each respective university's endowment, foundation and athletic association, as applicable. These organizations are considered discretely presented component units of the State University System, however they do not classify investments according to risk because they prepare their financial statements under standards set by the Financial Accounting Standards Board. Each component unit of the State University System has issued financial statements that are available by contacting each respective university within the System.

At June 30, 2016, the Kansas University Endowment Association held \$1,550,288 of securities at fair value mainly in money markets, domestic equities, U.S. Treasuries, mutual funds, common trust equity and fixed income funds, marketable alternatives and other LLCs and LLPs. The marketable alternatives, LLCs, and LLPs are accounted for at fair value using the NAV as the practical expedient.

At June 30, 2016, the Kansas State University Foundation held \$672,382 of securities at fair value held mainly in equity securities, mutual funds (equity and fixed income), pooled separated funds (equity and fixed income), hedge funds, common stock, real estate, U.S. government obligations and various forms of private capital.

At June 30, 2016, the Wichita State University Foundation held \$217,191 of securities at fair value held mainly in common and preferred stocks, foreign stocks, corporate bonds, mortgage-backed securities, U.S. government securities, commodities, hedged funds and foreign bonds.

State of Kansas  
**Notes to the Financial Statements**  
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### III. Detailed Notes On All Funds

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A reconciliation of deposits and investments to the financial statements at June 30, 2016, is as follows (expressed in thousands):

**Disclosures Regarding Deposits and Investments:**

Total investments and time deposits	\$ 21,469,862
Carrying amount of demand deposits	4,006,549
Total	<u>\$ 25,476,411</u>

**Statement of Net Position**

*Governmental and Business-Type Activities*

Cash and cash equivalents	\$ 1,459,765
Investments at fair market value	190,462
Restricted cash and cash equivalents	745,311
Restricted investments	285,354

*Component Units*

Cash and cash equivalents	793,627
Investments at fair market value	619,772
Restricted cash and cash equivalents	208,588
Restricted investments	2,674,262

**Statement of Fiduciary Net Position**

Cash and cash equivalents	1,274,582
Investments at fair market value	17,224,688
Total	<u>\$ 25,476,411</u>

*Deposits.* At June 30, 2016, the carrying amount of the Governmental and Business-type Activities was \$2.2 billion, of which the bank balance was \$1.8 billion. For cash deposits with financial institutions, the State requires that its depository banks pledge collateral that has a market value equal to or greater than the deposits. Effective March 15, 2004, the Kansas State Treasurer's office in its role as custodian for collateral pledged against the State deposits, agreed to follow the changes to the pledged collateral policy that the Pooled Money Investment Board has approved. The criteria for collateralizing Kansas Bank CDs are as follows:

- U.S. Treasury securities (T-Bills, T-Notes, and Treasury Strips) and Federal Agency securities (Discount Notes and Debentures) with a final maturity of five years and under must be pledged at 100 percent of the amount being collateralized (for any amount over the \$250,000 FDIC coverage).
- Any other type of security (including CMOs and MBS), surety bonds, or letters of credit (regardless of the final maturity) must be pledged at 105 percent of the amount being collateralized.
- Any security with a final maturity longer than five years must be pledged at 105 percent of the amount being collateralized.

Securities pledged as collateral for demand deposit accounts will not be subject to the new pledged collateral policy. The State's deposits with financial institutions were fully collateralized at fiscal year-end by Federal Deposit Insurance Corporation (FDIC) insurance or pledged collateral (government securities, or FHLB letters of credit). The pledged securities and bonds are held in safekeeping for the State Treasurer at the Federal Reserve Bank of Boston or in approved custodial banks and are held in the name of the State.

The cash balances in the State Treasury are included in the financial statements in the category of "Cash and cash equivalents." Also included in this category are amounts outside the State Treasury such as cash in agencies' imprest funds and authorized bank accounts, canteen, benefit and members' moneys in agencies' custody.



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### III. Detailed Notes On All Funds

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*Fair value measurements.* Effective June 30, 2016, the State implemented GASB 72, *Fair Value Measurement and Application*, which establishes a framework for measuring fair value that requires or permits fair value measurement and enhances disclosures about fair value measurements. Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction. There is a fair value hierarchy which requires an entity to maximize the use of observable inputs when measuring fair value. The guidance requires three levels of fair value measurement based on the respective inputs. The following table presents the State's recurring fair value measurements as of June 30, 2016.

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## III. Detailed Notes On All Funds

**Investments and Derivative Instruments Measured at Fair Value (expressed in thousands)**

Fair Value Measurements Using					
		Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	6/30/2016				
Investments by fair value level					
Debt securities					
U.S. Treasury securities	\$ 2,096,623	\$ 195,912	\$ 1,900,711	\$ 0	
U.S. Agency securities	1,560,339	606,918	953,421	0	
Corporate bonds	376,780	158,757	217,984	39	
Commercial Paper	1,237,356	37,790	1,199,566	0	
Asset Backed	4,383	0	4,383	0	
Vanguard Short-term bond index	13,088	13,088	0	0	
Yankees	239,140	0	239,140	0	
International	548,395	0	548,395	0	
Foreign bonds	2,549	919	1,630	0	
US Corporate, Municipalities	1,703,077	0	1,702,829	248	
US Bank Loan	84,166	0	84,166	0	
GNMA	80,395	0	80,395	0	
Debt securities	11,377	9,899	0	1,478	
Mutual fund	33,813	33,813	0	0	
Municipal bonds	3,395	0	3,395	0	
Commercial mortgage-backed securities	9,137	0	9,137	0	
Collateralized mortgage obligations	-	0	-	0	
State or Municipal Debt Obligation	89,915	89,915	0	0	
Other	11,604	11,604	0	0	
Total debt securities	8,105,532	1,158,615	6,945,152	1,765	
Equity securities					
Domestic ETF	2,128,577	2,128,577	0	0	
International ETF	1,404,863	1,404,863	0	0	
Domestic Common stock	3,429,520	3,429,520	0	0	
International Common	2,234,783	2,234,783	0	0	
Preferred Stock	42,802	42,802	0	0	
Common Stock	1,408	1,408	0	0	
Foreign Stock	24,822	24,822	0	0	
Consumer discretionary	1,062	1,013	0	49	
Consumer supplies	1,838	1,838	0	0	
Energy	206	206	0	0	
Financials	699	699	0	0	
Healthcare	791	791	0	0	
Industrials	794	794	0	0	
Information technology	946	946	0	0	
Telcommunication services	129	129	0	0	
Mutual Funds	110,304	110,304	0	0	
Fixed Income	16,420	16,420	0	0	
Marketable Equity Securities	99,825	94,106	0	5,719	
Private equity limited Partnership	39,706	0	0	39,706	
Venture Capital limited partnership	9,698	0	0	9,698	
Hedge Fund	68,008	0	0	68,008	
Real Estate limited partnership	4,095	1,074	0	3,021	
Other	58,120	56,598	0	1,522	
Total equity securities	9,679,416	9,551,693	0	127,723	
Derivatives by Fair Value Level					
To-Be-Announced Agencies	70,128	0	70,128	0	
Swap, credit default, Buy	660	0	660	0	
Put Options	95	3	92	0	
Call Options	373	365	8	0	
Other					
Money Market and ST Obligations	2,020	2,020	0	0	
Money Market Mutual fund	11,830	11,830	0	0	
Repurchase agreements	972,893	21,693	951,200	0	
Guaranteed investment contracts	34,682	33,263	1,419	0	
Furture Contracts	45,714	44,519	1,195	0	
Certificate of Deposit	8,246	5,342	2,904	0	
Closely held common stock	107,361	0	0	107,361	
Real Estate Investment	117,286	0	0	117,286	
Real Estate Fund	10,641	0	0	10,641	
Mutual Fund	9,410	9,410	0	0	
KMIP	482	482	0	0	
External investment pools	467,319	398,639	66,822	1,858	
Other	190,379	32,483	92,449	65,447	
Total Other capital investments	2,049,519	560,049	1,186,877	302,593	
Total investments by fair value level	\$ 19,834,467	\$ 11,270,357	\$ 8,132,029	\$ 432,081	

State of Kansas  
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### III. Detailed Notes On All Funds

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<b>Investments measured at the net asset value (NAV)</b>	
Money Market Funds	37,696
Private Equity Partnerships	761,716
Real Estate Partnership	505,025
Common trust funds-Equities	439,562
Common trust funds-Fixed income	99,884
Hedge Funds	428,196
Private Investment	194,171
Other LLC's & LLP's	61,672
Equity long/short hedge funds	56,249
Event-driven hedge funds	24,689
Venture Capital	45,561
Domestic private equity	23,337
International equity	13,638
Private capital distressed debt	5,069
Natural Resources	13,273
Multi-Strategy hedge funds	15,955
Other securities and investments	134
Real Estate Partnership	4,183
Real estate funds	1,186,392
Other	10,346
Total investments measured at the NAV	<u>3,926,748</u>
Total investments measured at fair value	<u>\$ 23,761,215</u>
<b>Investment valued at amortized cost</b>	
Money Market Instruments	416,054
Certificate of Deposit	456
Equity security	1,303
Other	7,434
Total investment derivative instruments	<u>\$ 425,247</u>
Total investment and derivative instruments	<u>\$ 24,186,462</u>

Debt, equity and other securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt and other securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Debt securities classified as level 3 are those securities in inactive markets where prices have been determined to be stale otherwise do not meet observable level 2 criteria.

Marketable equity securities classified in Level 3 of the fair value hierarchy are valued using a market approach models including multiples of adjusted earning, guideline companies and market-based valuations.

Hedge funds, venture capital, and private equity limited partnership investments classified as level 3: Fair value is determined through consideration of the net asset values provided by the fund manager and other market factors. Other factors include, but are not limited to, estimates of liquidation value, prices of recent transactions in the same or similar funds, current performance, future expectations of the particular investment, and changes in market outlook and the financing environment.

Other investments of \$1.5 million classified as level 3 are equity security holdings which are not publicly traded or readily marketable so are therefore recorded at cost.

All currency forwards and other derivative instruments are used for investment activities. Level 1 options are traded on active exchanges. Currency forwards are included in payables and receivables on the Statement of Fiduciary Position. Fair value for these is reflected by adjusting those payable/receivable values for daily fluctuations in currency exchange rates. KPERS had \$4.8 million in outstanding currency forward contract payables and receivable at June 30, 2016. The net fluctuations in currency rates at that time increased the unrealized fair value of those contracts by \$52.4 million.

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Other securities classified as level 3 are valued based on fair value estimates from investment managers or fair value specialist on a monthly, quarterly or annual basis. For real estate investments management obtains fair value estimates from both internal and external valuation sources, including county tax appraisals and historic comparable sales information. Management challenges the reasonableness of the assumptions used and reviews the methodology to ensure the estimated fair value complies with accounting standards generally accepted in the United States.

**Investments Measured at the NAV (expressed in thousands)**

	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Equity long/short hedge funds	\$ 56,249	\$ 0	Monthly to annually	30-90 days
Common trust funds-equities	299,933	0	Daily, monthly, quarterly	1-45 days
Common trust funds-fixed Income	99,884	0	Daily, monthly	1-10 days
Common trust funds	1,131	0	Monthly	1-10 days
hedge funds and fixed income partnerships	15,955	0	Quarterly	95-100 days
			Monthly, quarterly, semi-	
Hedge funds	428,196	5,200	annually, annually	15-90 days
Private investment	194,171	144,329	N/A	N/A
Other LLC's & LLP's	61,672	0	Monthly	1-30 days
Equity securities	139,629		Monthly	5-45 days
Venture capital	45,561	27,081	N/A	N/A
Domestic private equity	23,337	17,341	N/A	N/A
International private equity	13,638	14,041	N/A	N/A
Private capital distressed debt-liquid	1,546	7,136	Annual	120 days
Private capital distressed debt-liquid	3,523	653	None	none
Natural resources	13,273	12,546	None	none
Other securities and investments	134		N/A	N/A
Private equity partnerships	761,716	1,104,332	Quarterly	30 days
Real estate partnership	509,208	370,984	Quarterly	30 days
Private equity and natural resources	9,215	4,214	At fund discretion	N/A
Money market funds	37,696		No restrictions	
Event-driven hedge funds	24,689		Monthly to annually	45 days
Real estate funds	1,186,392	50,000	Quarterly	30 days
Total investments measured at the NAV	<u>\$ 3,926,748</u>	<u>1,757,857</u>		

**KPERS NAV Methodology.** KPERS wholly owns four separate properties including timber land and its home office. These are valued according to annual independent professional appraisals and can be sold at any time. Appraisals utilize comparable sales, inventory estimates and present values of cash flows to determine respective property valuations. There are no unfunded commitments for these properties. The home office property is 50 percent KPERS occupied and 50 percent rentable space. This building was split into two units of account at purchase. KPERS' portion is included in capital assets. All but one of KPERS real estate partnerships is included in the net asset value portion of this table. The real estate partnership shown at level 3 is valued at cost in its audited financial statements. Sales restrictions are similar to its NAV valued peers.

For 66 private equity partnerships, 32 real estate partnerships and one infrastructure partnership, the fair value of each investment has been determined using the NAV per share or its equivalent of KPERS' ownership interest in the partners' capital. All partnerships provided audited December 31, 2015 financial reports with unmodified opinions, along with unaudited quarterly reports. Net asset values one quarter in arrears plus current quarter cash flows are used when recent information is not available. These partnerships are diversified across types and vintage years. The expected term of each partnership is between seven to ten years. Any sales of these would be on an inefficient secondary market that could result in values above or below those listed. Transfers to buyers are restricted to quarter end dates. No sales are contemplated.

Money market funds are cash investment pools provided and operated through the custodian bank. Money market investments are separate short term securities, including treasuries and agencies, purchased within one year of maturity. Fair value and amortized for these securities are materially equivalent.

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### III. Detailed Notes On All Funds

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*KSU NAV Methodology.* Investments in common trust funds –equities includes investments in pooled separate accounts which hold exchange-traded equity securities, fixed income securities and multi-strategy commodities fund. While the underlying securities in these accounts are primarily highly liquid, exchange-traded securities, the nature of this type of account only allows for monthly liquidity at a month end net asset value.

Investments in private equity and venture capital funds are structured as close-end, commitment-based investment funds where a specified amount of capital is committed upon inception of the fund which is then drawn down over a period of three to five years, and distributions are received through the liquidation of underlying assets of the fund. The typical term of these investments is 12-15 years. Such funds generally do not provide redemption options for investors.

Investments in event-driven hedge funds pursue multiple strategies to diversify risks and reduce volatility. The funds' composite portfolio includes investments in U.S. common stocks, global real estate projects and arbitrage investments. Certain funds may have the ability to impose a suspension or postponement of redemptions until further notice (a "Gate"). In addition certain funds may delay payment of a portion of redemption proceeds (a "Holdback") until the annual audited financial statements are distributed.

Investments in equity long/short hedge funds take both long and short positions, primarily in U.S. common stocks. Management of the funds has the ability to shift investments among differing investment strategies. Certain funds may have the ability to impose a suspension or postponement of redemptions until further notice (a "Gate"). In addition certain funds may delay payment of a portion of redemption proceeds (a "Holdback") until the annual audited financial statements are distributed.

*KU NAV Methodology.* Investments in common trust funds – equities and fixed income are invested primarily in marketable common stocks and bonds. The fair values of these investments have been estimated using the NAV per share of the investments.

Hedge funds, private investments, and investments in other LLCs and LLPs are also accounted for at fair value using NAV as the practical expedient. The primary objectives of these investment types are to improve diversification and reduce volatility. These investments have various liquidity schedules, which are monitored on a continuous basis. Redemption frequency of hedge funds can be subject to rolling lockups. Of the hedge funds approximately 82% is available for redemption within 12 months and another 17% is available for redemption within three years. The remaining 1% is deemed to be illiquid due to special investments of the manager.

*ESU NAV Methodology.* Investments in multi-strategy hedge funds pursue multiple strategies to diversify risks and reduce volatility. Some examples of the strategies hedge funds invest in include long/short equity, long/short credit, event driven, global macro and multi-strategy. Hedge funds have initial lock-up periods ranging from zero to one year, and thereafter require between 95 and 100 days of advance notice prior to quarterly redemption windows.

Investments in real estate partnerships consists of an open-end real estate product that invests across all major property types using public REITS, private open-end core real estate funds and a portfolio of directly held properties. This investment provides investors with quarterly redemptions. Redemption payments may be delayed in the vent of extraordinary circumstances.

Other investments include private equity investments involved in acquiring stakes in private companies. Natural resources include investments across a broad spectrum, including natural resources and energy related investments and commodities. Fund of funds are utilized to access these investments since this provides diversification and reduces risk. These investments are considered to be long-term endeavors and have limited liquidity. Investments make a dollar commitment identifying how much they will invest. During the "Drawdown" period (typically the first several years) committed capital is called from investors. Capital is returned to investors as investments are divested through sales.

*Interest Rate Risk.* Interest rates risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The State minimizes the risk by structuring its investment so that securities mature to meet cash requirement

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### III. Detailed Notes On All Funds

for scheduled disbursement and ongoing operations, taking into account cash balances available or expected to be available for such requirements, thereby avoiding the need to sell securities on the open market prior to maturity. To limit risk, the State diversifies investments based on various benchmarks. In addition, some agencies utilize investment managers for input and advice as part of investment policy.

*Credit risk:* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Certain agencies adopt a policy of limiting the investments to only those allowed by State Statute and minimize the credit risk through pre-qualifying institutions, diversifying their portfolios and maintaining a standard of quality of authorized eligible investments. The Primary Government, Component Units, and Fiduciary investments as of June 30, 2016 are presented below with applicable credit ratings (expressed in thousands):

**Governmental and Business-Type Activities Investments at June 30, 2016**

	Fair Value	Quality Ratings									
		AAA	AA	A	BBB	BB	B	CCC	CC	D	Unrated
U.S. government	\$ 45,107	\$ 0	\$ 45,107	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
U.S Agencies Securities	779,882	0	779,882	0	0	0	0	0	0	0	0
Repurchase Agreements	682,036	0	664,115	0	0	0	0	0	0	0	17,921
Equity securities	98,432	0	0	0	0	0	0	0	0	0	98,432
Investment Contracts	35,828	0	18,728	0	0	0	0	0	0	0	17,100
Commercial paper	873,564	0	0	835,774	0	0	0	0	0	0	37,790
Corporate Bonds	309,843	7,969	165,569	18,816	84,954	17,851	9,625	1,196	213	287	3,363
Municipal securities	89,915	0	0	0	0	0	0	0	0	0	89,915
	\$ 2,914,607	\$ 7,969	\$ 1,673,401	\$ 854,590	\$ 84,954	\$ 17,851	\$ 9,625	\$ 1,196	\$ 213	\$ 287	\$ 264,521

**Component Units Investments at June 30, 2016**

	Fair Value	Quality Ratings						Unrated
		AAA	AA	A	BBB	BB		
U.S Treasury	\$ 99,818	\$ 5,991	\$ 93,827	\$ 0	\$ 0	\$ 0	\$ 0	0
U.S Agencies Securities	180,157	4,831	175,326	0	0	0	0	0
Asset Backed	4,383	4,383	0	0	0	0	0	0
Repurchase Agreements	3,578	0	0	0	0	0	0	3,578
Investment Contracts	1,419	0	0	0	0	0	0	1,419
Mutual Fund -Fixed Income	13,088	0	13,088	0	0	0	0	0
Mutual Fund-Equities	48,083	0	0	0	0	0	0	48,083
Equity Securities	12,469	112	885	1,707	1,511	117		8,137
Corporate Bonds and Commercial paper	63,167	6,623	742	27,963	27,825	0		14
Alternative Investment	1,478	0	0	0	0	0		1,478
Municipal Securities	3,877	0	0	0	0	0		3,877
Unversity assets reported under FASB	2,657,042	0	0	0	0	0		2,657,042
Other Investment	153,128	0	12,406	78,652	0	0		62,070
Venture Capital limited partnership	9,698	0	0	0	0	0		9,698
	<u>\$ 3,251,385</u>	<u>\$ 21,940</u>	<u>\$ 296,274</u>	<u>\$ 108,322</u>	<u>\$ 29,336</u>	<u>\$ 117</u>	<u>\$</u>	<u>2,795,396</u>

State of Kansas  
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### III. Detailed Notes On All Funds

Fiduciary Fund Investments at June 30, 2016

	Fair Value	Quality Ratings									
		AAA	AA	A	BBB	BB	B	CCC	CC	C	Unrated
U.S. Government	\$ 2,005,355	\$ 1,924,960	\$ 80,395	0	0	0	0	0	0	0	0
U.S. Agency	677,663	1,431	676,232	0	0	0	0	0	0	0	0
Repurchase Agreements	287,085	0	287,085	0	0	0	0	0	0	0	0
Equity Securities	10,107,374	0	0	0	0	0	0	0	0	0	10,107,374
Corporate Bonds and Commercial paper	2,375,532	210,774	362,984	244,633	834,485	342,824	175,923	65,456	8,365	78	130,010
Other investment	2,567,461	0	0	0	0	0	0	0	0	0	2,567,461
	\$ 18,020,470	\$ 2,137,165	\$ 1,406,696	\$ 244,633	\$ 834,485	\$ 342,824	\$ 175,923	\$ 65,456	\$ 8,365	\$ 78	\$ 12,804,845

*Concentration risk.* Concentration risk is the risk of loss resulting from an over concentration of assets in a specific maturity, specific user, or specific class of securities. Certain state agencies minimize this risk by requiring that no more than five percent of the investment portfolio be invested in the securities of a single issuer or business entity (excluding U.S. Treasury Securities and U.S. Government Agency Securities), and requiring that commercial paper and corporate bonds never exceed 60 percent of the investment portfolio. As of June 30, 2016, Federal National Mortgage Association, Freddie Mac, Federal Farm Credit Bank and Federal Home Loan Bank comprised 28.7%, 8.2%, 4.5% and 13.4%, respectively of KHRC's investment portfolio. As of June 30, 2016, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Federal Home Loan Bank and Federal Farm Credit Bank comprised 46.4%, 10.8%, 35.8% and 7.0%, respectively of KTA's investment portfolio. As of June 30, 2016, the remaining Component Units and Fiduciary Funds held investments from no single issuer in excess of five percent of their total portfolio values. As of June 30, 2016, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Federal Home Loan Bank and Federal Farm Credit Bank comprised approximately 7.5%, 8.6%, 9.0% and 3.1%, respectively, of the Governmental and Business Type Activities investment portfolio.

*Custodial Credit Risk.* Custodial credit risk is the risk that, in the event of a failure of the financial institution or counterparty, the primary government, fiduciary, and/or component unit will not be able to recover the value of its deposits, investments, or collateral securities that are in the possession of the outside party. Any fixed income investment security purchased by the State of Kansas (PMIB) are safe kept until maturity at one of the two locations:

- U.S. Government Securities: Includes U.S. Treasury Bills & Notes and Federal Agency securities (includes Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB), Federal National Mortgage Association (Fannie Mae, FNMA), Federal Home Loan Mortgage Corporation (Freddie Mac, FHLMC) and others are "book-entry" securities and purchased on a "delivery versus payment" (DVP), the security settles (clears) through the State of Kansas correspondent bank (US Bank) and is then ultimately transferred to the State of Kansas "Fed Account" for safekeeping until maturity.
- Non-U.S. Government Securities: Includes highly-rated (A1/P1 or A1+/P1) Commercial Paper (matures within 270 days or less) and highly-rated (min. rating of AA-/Aa3) Corporate Bonds (maturing in 2-years or less by policy) are also purchased on a "delivery versus payment" (DVP) basis and settle via "DTC" (Depository Trust Company) by the State of Kansas correspondent bank (US Bank). The security is held in safekeeping at US Bank's DTC account on behalf of the State until maturity.

Many years ago, some fixed-income securities came in "physical form" (actual piece of paper identifying type, dollar amount, etc.) and would have been safe kept (held) by either the State (in the State Treasurer's Vault) or at the State's correspondent Bank vault. The PMIB does not have any of these types of securities in the fixed-income investment portfolio known as the Pooled Money Investment Portfolio; a.k.a. the PMIP.

Other primary government Investment Funds such as the Treasurer's unclaimed property, one hundred percent of its investment are held in the Fund's name and are not subject to creditors of the custodial bank. At June 30, 2016 the custodian bank held \$2.1 million overnight for the System subject to FDIC insurance limits. With that exception, one hundred percent of KPERS investments are held in KPERS' name and are not subject to creditors of the custodial bank. The Kansas Development and Financial Authority (KDFA) bank balances are backed by pledge collateral to a Federal Reserve account for amounts in excess of the Federal Deposit Insurance Corporation (FDIC) limits. The Kansas Housing

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### III. Detailed Notes On All Funds

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Resource Corporation (KHRC) investment policy requires collateralization on all demand deposit accounts, and to secure investments in Certificates of Deposits and Repurchase Agreements. KHRC also minimizes custodial credit risk by pre-qualifying the custodial or depository institutions, brokers/dealers, intermediaries and advisors with which KHRC will do business. Investments held at June 30, 2016, including the underlying securities on the repurchase agreement, are held by the investment's counterparty. At June 30, 2016, the Kansas Bioscience Authority (KBA) had no deposits exposed to custodial credit risk. Also, as of June 30, 2016, 100 percent of KBA investments were held by the investments' counterparties. At June 30, 2016, none of KTA's bank balances were exposed to custodial credit risk. At June 30, 2016, KCE's deposits were fully insured or collateralized with securities held by KCE or by its agent in KCE's name. At June 30, 2016, INK's deposits were insured by the FDIC up to \$250,000 per bank. INK's deposits may have exceeded the FDIC insurance limits during the year ended December 31, 2015.

*Foreign Currency Risk.* Foreign Currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The primary government fund's investments at June 30, 2016, were distributed among currencies in the following list.

#### Governmental and Business-Type Activities

##### Foreign Currency at June 30, 2016

Fair Value	Currency	Percent
\$ 353	Australian Dollar	0.10 %
1,431	Colombian Peso	0.40 %
1,283	Euro Currency Unit	0.36 %
1,676	Indian Rupee	0.47 %
3,706	Mexican New Peso	1.03 %

All foreign currencies are in the medium grade bond portfolio



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### III. Detailed Notes On All Funds

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**Fiduciary Fund**  
**Foreign Currency at June 30, 2016**

USD Equivalent		Currency	Total
Equity	Fixed		
\$ 114,376	\$ 6,830	Australian Dollar	\$ 121,206
17,754	1,967	Brazil Real	19,721
128,342	20,817	Canadian Dollar	149,159
2,414	0	Chilean Peso	2,414
956	3,497	Colombian Peso	4,453
358	0	Czech Koruna	358
82,138	1,723	Danish Krone	83,861
443	0	Egyptian Pound	443
822,316	155,406	Euro Currency Unit	977,722
602,490	251,385	Great Britain Pound	853,875
183,916	0	Hong Kong Dollar	183,916
547	9,785	Hungarian Forint	10,332
16,956	4,778	Indian Rupee	21,734
5,471	0	Indonesian Rupian	5,471
8,327	0	Israeli New Sheqel	8,327
552,268	39,877	Japanese Yen	592,145
5,945	0	Malaysian Ringgit	5,945
14,900	20,296	Mexican New Peso	35,196
12,552	14,641	New Zealand Dollar	27,193
43,927	0	Norwegian Krone	43,927
3,176	0	Philippines Peso	3,176
2,325	0	Polish Zloty	2,325
1,832	0	Qatari Rial	1,832
0	1,947	Russian Ruble	1,947
36,757	0	Singapore Dollar	36,757
0	0	Peruvian Nouveau Sol	0
39,159	0	S. African Comm Rand	39,159
91,458	0	South Korean Won	91,458
83,995	7,018	Swedish Krona	91,013
191,238	0	Swiss Franc	191,238
59,879	0	Thailand Baht	59,879
15,528	0	Taiwan New Dollar	15,528
6,326	0	Turkish Nre Lira	6,326
1,652	0	United Arab Emirates Dirham	1,652
<u>\$ 3,149,721</u>	<u>\$ 539,967</u>		<u>\$ 3,689,688</u>

### III. Detailed Notes On All Funds

All foreign currency exposure for Fiduciary funds is held in KPERS. KPERS' asset allocation and investment policies include active and passive investments in international securities. KPERS target allocation is to have 24.0 percent of assets in dedicated international equities. KPERS utilizes two currency overlay managers to reduce risk by hedging up to 100 percent of the developed foreign currency market for selected international equity portfolios. At June 30, 2016, KPERS total foreign currency exposure was 60.8 percent hedged.

#### Investment Derivatives

##### *Futures*

Futures contracts are commitments for delayed delivery (liability) or receipt (asset) of securities in which the seller agrees to make delivery and the buyer agrees to take delivery at a specific future date, of a specific instrument, at a specific price. Market risk arises due to market price and interest rate fluctuations that may result in a decrease in the fair value of futures contracts. Futures contracts are traded on organized exchanges and require initial margin in the form of cash or marketable securities. Holders of the futures contracts look to the exchange for performance under the contract. Accordingly, the credit risk due to nonperformance of the counterparties to futures contracts is minimal. Daily, the net change in the futures contract value is settled in cash with the exchanges, making the fair values always equal to zero after the daily margin flow. At the close of business June 30, 2016, KPERS had total net margins payable the next day of \$0.08 million. Short-term investments in amounts necessary to settle the economic value of the futures contracts were held in the portfolio so that no leverage was employed in accordance with the Statement of Investment Policy. The daily margin flows affect cash assets held at the broker. Realized gains/losses are recognized at contract maturity and are included with underlying security type returns. Total losses of \$31.6 million were associated with futures for the year ending June 30, 2016.

##### *Options*

KPERS also participates in option contracts. These contractual agreements give the purchaser the right, but not the obligation, to purchase or sell a financial instrument at a specific price within a specific time. The option buyer has some counterparty risk in the event the seller cannot deliver when exercised. This involves opportunity cost and possible loss of option fees. The option seller holds the securities and has minimal counterparty risk. Option strategies used by KPERS are designed to provide exposures to positive market moves and limit exposures to interest rate and currency volatility.

**Investment Derivative Summary at June 30, 2016**  
*(expressed in thousands)*

Derivative	Asset Class*	Notional Value	Fair Value
Domestic Equity Futures	Domestic Equities	\$ 22,706	\$ 0
International Equity Futures	International Equities	15,337	0
Fixed Futures	Fixed	(123,239)	0
Credit Default Swaps	Fixed	20,500	660
TBA Agency Bonds**	Fixed	70,128	70,128
Foreign Currency Forwards	Fixed	4,813,142	52,407
Options Purchased	Fixed	63,638	468

\* The Asset Class that the Fair Values and Revenues are included in other schedules. Futures and Options reflect the summed absolute values of the exposures.

\*\* TBA Agency Bond notional values are equal to their fairvalues. KPERS investment policy allows managers to carry short TBA values as long as they have offsetting long holdings in similar securities with similar characteristics.

##### *Swaps*

Interest rate swaps are agreements between two counterparties to exchange future cash flows. These are generally fixed vs. variable flows, and can be either received or paid. These swaps are used to adjust interest rate and yield curve exposure and substitute for physical securities. Long swap positions (receive fixed) increase exposure to long-term interest rates; short positions (pay fixed) decrease exposure. Counterparty risk is limited to monthly exchanged or netted cash flows.

### III. Detailed Notes On All Funds

Credit default swaps are used to manage credit exposure without direct purchase or sale of securities. Written credit default swaps increase credit exposure (selling protection) obligating the seller to buy the bonds from the counterparty in the event of default. This creates credit risk, but very little counterparty risk. Purchased credit default swaps decrease exposure (buying protection) providing the right to “put” bonds to the counterparty in the event of default. This decreases credit risk, and has counterparty risk in the event the seller of the protection fails to cover the defaulting security. Controls are established by the investment managers to monitor the creditworthiness of the counterparties.

#### *TBA (To Be Announced) Agency Bonds*

A TBA is a contract for the purchase or sale of agency mortgage-backed securities to be delivered at a future agreed-upon date; however, the actual pool identities or the number of pools that will be delivered to fulfill the trade obligation or terms of the contract are unknown at the time of the trade. A common practice is to buy a TBA security thirty to sixty days in advance of the issue date with the issue date as the trade settle date, then selling the security four days before issue date, with the same settle date. This allows the trader to realize a gain or loss on the security based on changes in interest rates, without taking possession of, or paying for, the security. The only cash cost is the broker cost of the trades. These have minimal credit risk, while this scenario is designed specifically to increase interest rate exposure.

#### **Investment Derivative Fair Values**

*(expressed in thousands)*

Derivative	June 30, 2015	Increases	Decreases	June 30, 2016
Pay fixed interest swaps	\$ 188	\$ 1,918	\$ 2,106	\$ 0
Credit default swaps	1,960	21,160	22,460	660
TBA agency bonds*	65,361	1,068,760	1,063,993	70,128
Foreign currency forwards	(14,168)	93,354	26,779	52,407
Options purchased	4	5,132	4,669	467
Total	<u>\$ 53,345</u>	<u>\$ 1,190,324</u>	<u>\$ 1,120,007</u>	<u>\$ 123,662</u>

\*TBA Agency Bond notional values are equal to their fair values

#### *Foreign Currency Forwards*

KPERS’ international investment managers use forward contracts to obtain currencies necessary for trade execution and manage the exposure of the international investments to fluctuations in foreign currency. Active international investment managers use forward contracts to enhance returns or to control volatility. Currency risk arises due to foreign exchange rate fluctuations. Forward foreign exchange contracts are negotiated between two counterparties. KPERS could incur a loss if its counterparties failed to perform pursuant to the terms of their contractual obligations. Since KPERS holds the offsetting currency in the contract, and controls are established by the investment managers to monitor the creditworthiness of the counterparties, risk of actual loss are minimized. Foreign currency forwards are reflected on the financial statements in offsetting notional receivable and payable amounts for the two sides of the contract. Fair value is reflected as unrealized gains or losses when currency rates fluctuate during the life of the contract.

KPERS utilizes two currency overlay managers to reduce, or partially hedge, KPERS’ exposure to foreign currencies through the international equities portfolio. At June 30, 2016, the fair value of international equities was \$3.6 billion. The overlay managers evaluate KPERS’ international equities exposure to currencies, and buy/sell inverse currency forwards in relation to the overall currency exposures. The inverse relationship of these hedging investment forwards uses their exposure to currency risk to reduce overall KPERS exposure. KPERS Statement of Investment Policy stipulates that the overlay manager should “Take forward currency exchange contract positions which will have the intent and effect of hedging the currency exposure of the underlying international equity assets.” KPERS Statement of Investment Policy further states the forward currency exchange contract positions be used to “Maintain an acceptable risk level by reducing the negative volatility of the currency component of return.”

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### III. Detailed Notes On All Funds

The forward contracts are purchased as needs are determined by the hedge manager, and mature quarterly. Gains/losses are realized during those periods and the contracts are rolled over to the next period as appropriate. Through these processes, hedging contracts can adapt to any changes to portfolio currency exposures. Since the hedging currency forwards track to the overall exposure, and they reference the same foreign exchange rates as the underlying portfolio, this hedge is known to be effective through consistent critical terms. An investment portfolio hedge such as this does not match the hedging forwards to any specific hedged security. The accessibility and liquidity of the currency forwards market allows these hedging forwards to roll forward and seamlessly hedge the ongoing foreign currency exposures.

**Foreign Currency Forwards**  
*(expressed in thousands)*

<u>Currency</u>	<u>Notional Cost (USD)</u>	<u>Foreign Exchange Receivables</u>	<u>Pending Foreign Exchange Payables</u>	<u>Fair Value June 30, 2016</u>
<u>Investment Currency Forwards</u>				
Australian Dollar	\$ 173,004	\$ 172,917	\$ 173,354	\$ (437)
Brazil Real	2,564	2,581	2,580	1
British Pound	1,532,954	1,523,055	1,471,991	51,064
Canadian Dollar	218,510	218,748	217,035	1,713
Danish Krone	41,025	41,024	40,278	746
Euro Currency Unit	1,533,794	1,531,324	1,515,480	15,844
Hong Kong Dollar	172,616	172,618	172,640	(22)
Hungarian Forint	21,102	20,938	20,616	322
Indian Rupee	5,526	5,484	5,526	(42)
Israeli Seqel	38,781	38,543	38,781	(238)
Japanese Yen	593,912	596,159	616,572	(20,413)
Mexican New Peso	22,597	22,708	22,308	400
New Zealand Dollar	132,230	133,417	133,144	273
Norwegian Krone	23,261	23,259	22,667	592
Singapore Dollar	37,408	37,578	37,490	88
South Korean Won	4,079	4,074	4,079	(5)
Swedish Krona	58,506	58,348	57,559	789
Swiss Franc	189,558	189,372	187,599	1,773
Taiwan Dollar	11,715	11,652	11,693	(41)
Total	<u>\$ 4,813,142</u>	<u>\$ 4,803,799</u>	<u>\$ 4,751,392</u>	<u>\$ 52,407</u>

### III. Detailed Notes On All Funds

#### Currency Forwards Counterparty Exposure (expressed in thousands)

Counterparty Name	By Counterparty at June 30, 2016		Worst
	Notional \$USD	Fair Values	Long Term Rating
<i>Investment forwards counterparty exposure</i>			
Australia and New Zealand Banking Group	\$ 268,901	\$ 4,458	AA
Bank of America, N.A.	471,057	(574)	A
Barclays Bank PLC Wholesale	917,779	21,117	A
BNP Paribas	34,717	(2,293)	A
Citibank N.A.	287,264	3,740	A
Deutsche Bank AG	39,792	(33)	BBB
Goldman Sachs International	62,656	1,142	A
HSBC Bank PLC	491,337	6,915	A
Income Repatriation Boston IBS (Bs2)	360	(2)	NR
JPMorgan Chase Bank N.A.	16,042	41	A
JPMorgan Chase Bank Na London	601,589	5,498	A
Morgan Stanley and Co. International PLC	8,200	313	A
National Australia Bank Limited	193,488	7,837	AA
Royal Bank of Canada (UK)	228,911	(454)	AA
Royal Bank of Scotland PLC	7,862	(8)	BBB
Standard Chartered Bank	91,969	582	A
State Street Bank and Trust Company	27,282	18	AA
State Street Bank London	308,391	3,450	A
Subcustodian	4,079	(5)	NR
Toronto Dominion Bank	202,714	(4,919)	AA
UBS AG London	46,213	(72)	A
Westpac Banking Corporation	502,539	5,656	AA
Total	\$ 4,813,142	\$ 52,407	

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### III. Detailed Notes On All Funds

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#### B. Receivables

Accounts receivable as of June 30, 2016, for the State's primary government and component units net of the applicable allowances for uncollectible accounts, are as follows (expressed in thousands):

	Primary Government			Component
	Governmental	Business-type		Units
	Activities	Activities	Total	
Taxes receivable, net	\$ 665,949	\$ 0	\$ 665,949	\$ 0
Intergovernmental receivable	87,765	5,101	92,866	6,329
Loan receivable	28,424	551,707	580,131	17,540
Accrued interest	438	8,858	9,296	1,323
Other receivables, net	272,269	27,042	299,311	523,433
Total	<u>\$ 1,054,845</u>	<u>\$ 592,708</u>	<u>\$ 1,647,553</u>	<u>\$ 548,625</u>

Taxes receivable and other receivables are shown net of allowances for uncollectible amounts of \$441.0 million and \$184.0 million, respectively.

#### C. Investment in Direct Financing Leases

##### *Component Units*

The Kansas Development Finance Authority (KDFA) issues revenue bonds to facilitate construction of certain capital projects for various State agencies and other public and private entities. KDFA's interests in the projects have been assigned to various State government units through the use of financing lease transactions. Contained in the trust indenture or resolution and loan agreement for each series of bonds is a pledge of revenue agreement by which revenues paid by the various governmental units, as loan obligors to KDFA are pledged to pay bond debt service. Amounts are actually paid by the State agencies directly to the bond paying agents for the revenue bonds.

Net investment in direct financing obligations as of June 30, 2016, is as follows (expressed in thousands):

Total minimum lease payments to be received	\$ 3,212
Less: unearned income	<u>(382)</u>
Net investment in direct financing leases	<u>\$ 2,830</u>

The future minimum loan payments to be received by KDFA under the direct financing agreements mirror the payments to be made by KDFA under the revenue bonds payable.

#### D. Restricted Assets

Certain revenue bond proceeds and other resources set aside for bond repayment, capital projects, and other purposes are reported as restricted assets in the Statement of Net Position because their use is limited by applicable bond covenants or statutory provisions.

*Donor-Restricted Assets.* Kansas' permanent endowment moneys are held primarily by State university foundations. Each university has a separate foundation, and each foundation has its own policies and procedures. Typically, the permanent endowment funds have a nonexpendable permanent corpus and an earnings reserve, which is used to receive earnings and pay expenses. The donor restrictions and the Uniform Prudent Management of Institutional Funds Act (K.S.A. 58-3601) provide guidance on how these funds can be invested, and also govern the spending of net appreciation from these investments. Net appreciation is reflected in restricted net position. The amount of net appreciation available to be spent can be found in the individual foundation annual financial reports.

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### **III. Detailed Notes On All Funds**

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#### **E. Equity**

Net investment in capital assets, restricted for capital projects, restricted for debt service, restricted for highways and other transportation and restricted for other purposes are each shown separately on the Statement of Net Position. Restricted for capital projects, restricted for debt service, restricted for highways and other transportation and restricted for other purposes are restricted for externally imposed constraints. In addition, \$1.2 billion included in the State University System Component Unit restricted for other purposes category is nonexpendable.

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### III. Detailed Notes On All Funds

#### F. Capital Assets

##### Primary Government

(expressed in thousands)

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Governmental activities</i>				
Capital assets, not being depreciated:				
Construction in progress	\$ 716,840	\$ 352,655	\$ 271,479	\$ 798,016
Infrastructure (including construction in progress)	11,138,529	242,273	29,844	11,350,958
Land	260,082	11,578	120	271,540
Total capital assets, not being depreciated	<u>12,115,451</u>	<u>606,506</u>	<u>301,443</u>	<u>12,420,514</u>
Capital assets, being depreciated:				
Buildings and improvements	1,447,290	86,049	8,459	1,524,880
Equipment and furnishings	530,436	18,329	19,328	529,437
Intangible-software	75,054	760	56	75,758
Land improvements	117,886	13,193	0	131,079
Vehicles	82,582	11,622	9,272	84,932
Water rights	32,431	0	0	32,431
Total	<u>2,285,679</u>	<u>129,953</u>	<u>37,115</u>	<u>2,378,517</u>
Less accumulated depreciation for:				
Buildings and improvements	688,112	34,009	5,144	716,977
Equipment and furnishings	321,248	33,244	16,808	337,684
Intangible-software	48,529	10,273	1,368	57,434
Land improvements	61,105	2,751	-	63,856
Vehicles	59,817	8,232	6,754	61,295
Water rights	19,755	835	0	20,590
Total	<u>1,198,566</u>	<u>89,344</u>	<u>30,074</u>	<u>1,257,836</u>
Total capital assets, being depreciated, net	<u>1,087,113</u>	<u>40,609</u>	<u>7,041</u>	<u>1,120,681</u>
Governmental activity capital assets, net	<u>\$ 13,202,564</u>	<u>\$ 647,115</u>	<u>\$ 308,484</u>	<u>\$ 13,541,195</u>
<i>Business-type activities</i>				
Capital assets, being depreciated:				
Equipment and furnishings	\$ 1,375	\$ 628	\$ 469	\$ 1,534
Vehicles	790	58	71	777
Total	<u>2,165</u>	<u>686</u>	<u>540</u>	<u>2,311</u>
Less accumulated depreciation for:				
Equipment and furnishings	1,303	225	468	1,060
Vehicles	542	101	67	576
Total	<u>1,845</u>	<u>326</u>	<u>535</u>	<u>1,636</u>
Business-type activity capital assets, net	<u>\$ 320</u>	<u>\$ 360</u>	<u>\$ 5</u>	<u>\$ 675</u>



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**III. Detailed Notes On All Funds**

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Depreciation expense was charged to functions/programs as follows (expressed in thousands):

*Governmental activities*

General government	\$ 21,352
Human resources	11,813
Education	2,214
Public safety	20,190
Agriculture and natural resources	7,257
Highways and other transportation	25,874
Health and environment	644
Total depreciation expense – Government activities	<u>\$ 89,344</u>

*Business-Type activities*

Health care stabilization	\$ 6
Lottery	317
Communication system revolving	3
Total depreciation expense – Business-type activities	<u>\$ 326</u>

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### III. Detailed Notes On All Funds

#### Component Units

	Beginning Balance	Prior Period Adjustment	Increases	Decreases	Ending Balance
<i>Information Network of Kansas, Inc.</i>					
Capital assets, being depreciated					
Equipment and furnishings	\$ 0	\$ 14	\$ 5	\$ 0	\$ 19
Less accumulated depreciation	0	12	1	0	13
Total capital assets, being depreciated, net	<u>\$ 0</u>	<u>\$ 2</u>	<u>\$ 4</u>	<u>\$ 0</u>	<u>\$ 6</u>
<i>Kansas Development Finance Authority</i>					
Capital assets, being depreciated					
Buildings and improvements	\$ 572	\$ 0	\$ 12	\$ 0	\$ 584
Equipment and furnishings	331	0	18	0	349
Less accumulated depreciation	149	0	114	0	263
Total capital assets, being depreciated, net	<u>\$ 754</u>	<u>\$ 0</u>	<u>\$ (84)</u>	<u>\$ 0</u>	<u>\$ 670</u>
<i>Kansas Housing Resources Corporation</i>					
Capital assets, being depreciated					
Buildings and improvements	\$ 61	\$ 0	\$ 183	\$ 0	\$ 244
Equipment and furnishings	1,192	0	34	0	1,226
Assets in progress	117	0	7	0	124
Vehicles	72	0	0	20	52
Less accumulated depreciation	958	0	109	20	1,047
Total capital assets, being depreciated, net	<u>\$ 484</u>	<u>\$ 0</u>	<u>\$ 115</u>	<u>\$ -</u>	<u>\$ 599</u>
<i>Kansas Bioscience Authority</i>					
Capital assets, not being depreciated					
Land	\$ 420	\$ 0	\$ 0	\$ 0	420
Total capital assets, not being depreciated	<u>420</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>420</u>
Capital assets, being depreciated					
Buildings and improvements	13,431	0	11	2,777	10,665
Equipment and furnishings	1,357	0	0	281	1,076
Less accumulated depreciation	2,255	0	486	0	2,741
Total capital assets being depreciated, net	<u>12,533</u>	<u>0</u>	<u>(475)</u>	<u>3,058</u>	<u>9,000</u>
Total capital assets, net	<u>\$ 12,953</u>	<u>\$ 0</u>	<u>\$ (475)</u>	<u>\$ 0</u>	<u>\$ 9,420</u>
<i>Kansas Turnpike Authority</i>					
Capital assets, not being depreciated					
Land	\$ 14,021	\$ 0	\$ 8,151	\$ 0	\$ 22,172
Building CIP	-	0	839	0	839
Infrastructure, including CIP	536,910	0	4,328	0	541,238
Total capital assets, not being depreciated	<u>550,931</u>	<u>0</u>	<u>13,318</u>	<u>0</u>	<u>564,249</u>
Capital assets, being depreciated					
Buildings and improvements	33,657	0	0	0	33,657
Equipment and furnishings	21,543	0	3,944	846	24,641
Less accumulated depreciation	25,596	0	2,989	543	28,042
Total capital assets being depreciated, net	<u>29,604</u>	<u>0</u>	<u>955</u>	<u>303</u>	<u>30,256</u>
Total capital assets, net	<u>\$ 580,535</u>	<u>\$ 0</u>	<u>\$ 14,273</u>	<u>\$ 303</u>	<u>\$ 594,505</u>

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	(expressed in thousands)				
	Beginning Balance	Prior Period Adjustment	Increases	Decreases	Ending Balance
<i>University system</i>					
Capital assets, not being depreciated					
Construction in progress	\$ 302,484	\$ 0	\$ 482,454	\$ 369,323	\$ 415,615
Land	120,801	0	12,536	3,051	130,286
Total capital assets, not being depreciated	423,285	0	494,990	372,374	545,901
Capital assets, being depreciated					
Buildings and improvements	3,503,891	0	399,384	24,951	3,878,324
Land improvements	54,990	0	2,666	717	56,939
Equipment and furnishings	659,195	0	45,809	32,164	672,840
Intangible, software	29,191	0	8,941	9,427	28,705
Vehicles	57,767	0	3,951	3,117	58,601
Total capital assets, being depreciated	4,305,034	0	460,751	70,376	4,695,409
Less accumulated depreciation for:					
Buildings and improvements	1,400,216	0	110,669	17,249	1,493,636
Land improvements	24,556	0	1,865	233	26,188
Equipment and furnishings	467,016	0	45,411	28,486	483,941
Intangible, software	17,020	0	2,259	4,001	15,278
Vehicles	39,090	0	5,497	2,995	41,592
Totals	1,947,898	0	165,701	52,964	2,060,635
Total capital assets, being depreciated, net	2,357,136	0	295,050	17,412	2,634,774
University system capital assets, net	\$2,780,421	\$ 0	\$ 790,040	\$ 389,786	\$3,180,675
<i>All component units</i>					
Capital assets, not being depreciated					
Construction in progress	\$ 302,484	0	\$ 483,293	\$ 369,323	\$ 416,454
Land	135,242	0	20,687	3,051	152,878
Infrastructure, including CIP	536,910	0	4,328		541,238
Total capital assets, not being depreciated	974,636	0	508,308	372,374	1,110,570
Capital assets, being depreciated					
Buildings and improvements	3,551,612	0	399,590	27,728	3,923,474
Land improvements	54,990	0	2,666	717	56,939
Equipment and furnishings	683,735	14	49,816	33,291	700,274
Intangible, software	29,191	0	8,941	9,427	28,705
Vehicles	57,839	0	3,952	3,137	58,654
Total capital assets, being depreciated	4,377,367	14	464,965	74,300	4,768,046
Less accumulated depreciation for:					
Buildings and improvements	1,414,178	0	111,899	17,249	1,508,828
Land improvements	24,556	0	1,865	233	26,188
Equipment and furnishings	481,939	12	47,880	29,029	500,802
Intangible, software	17,020	0	2,259	4,001	15,278
Vehicles	39,163	0	5,497	3,015	41,645
Totals	1,976,856	12	169,400	53,527	2,092,741
Total capital assets, being depreciated, net	2,400,511	2	295,565	20,773	2,675,305
All component units capital assets, net	\$3,375,147	\$ 2	\$ 803,873	\$ 393,147	\$3,785,875

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#### *Construction Commitments*

The State has active construction projects as of June 30, 2016. The projects include road projects, dam repair, building remodeling and restorations. At year-end, the State's commitments with contractors are as follows (expressed in thousands):

Agency - Project	Spent to Date	Remaining Commitment	Funding Source
<b>Department of Administration</b>			
Statehouse restoration and renovation	323,323	0	Debt Service - Lease Revenue Bonds
<b>Department of Transportation</b>			
Various roadway projects	701,721	0	Federal, State and Local Funds
<b>Component Units:</b>			
<b>Fort Hays State University</b>			
Applied Technology Building	2,085	11,398	General Fees - Tuition
Track and Field Facility	616	2,465	General Fees - Tuition
Wiest Hall Construction	2,870	22,130	Residential Life Funds - Student Fees
Wiest Hall Parking Lot	821	1,166	Residential Life Funds - Student Fees
Wiest Hall Architectural Services	803	1,300	Residential Life Funds - Student Fees
Hansen scholarship Hall	2,179	1,472	Private Funds - Hansen Foundation
ERP - Finance -HR System	444	1,631	General Fees - Tuition
ERP _ Collaborative Solutions Consultants	1,367	1,449	Restricted Fees - Tuition
<b>Pittsburg State University</b>			
Fine & Performing Arts Center	25,946	148	Private Funding
	8,700	0	Bonds - Student Fees
Robert W. Plaster Center	12,008	111	Private Donations
	1,245	149	Bonds - Student Fees
Overman Student Center Expansion	12,166	134	Bonds - Student Fees
and Renovations	1,002	0	Student Union Fees
Renovation of Existing Housing	7,879	24	Housing Fund
	3,193	0	Bonds
	5,407	0	Bonds
	3,591	0	Bonds
Heckert Wells New HVAC and Lab	4,423	20	State R& R
Hood Systems	40	0	University Interest
	27	0	Local Funds
Weede Physical Education Building	2,206	272	Private Funding
Renovation	1,368	238	Bonds - Student Fees
	496	155	State R& R
<b>Kansas State University</b>			
West Hall Improvement (Housing)	3,341	924	Housing System Operation fund
Durland-Rathbone-Fiedler Fire Protection	1,600	0	Bonds and Restricted Fee Fund
Student Union Expansion	11,585	10,529	Bonds and Restricted Fee Fund
West Memorial Stadium	7,500	0	Bonds and Restricted Fee Fund
New Residence Hall and Dining Center	53,414	9,116	Bonds and Housing System Operation Fund
Engineering Complex Addition	36,668	231	Bonds and State Fee Funds
College of Business Building	32,038	3,885	Restricted Fee Fund and Private Funding

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Agency - Project	Spent to Date	Remaining Commitment	Funding Source
<b>Component Units:</b>			
(continued)			
<b>Kansas State University (continued)</b>			
Purebred Beef Cattle Relocation	5,200	0	Bonds
Hale Library Sprinkler System	1,407	963	Bonds
Chilled Water Plant & Campus Distribution Infrastructure	39,392	9,162	Bonds and Restricted Fee Fund
College of Architecture Renovation	12,751	48,006	Bonds and State General Fund
SE KS Research Extension Center (Horticulture)	2,305	0	Federal and Restricted Fee Fund
Refurbish MRI System	588	2,021	Vet Med Tchng Housing Revenue Fund
Reactor Control Console	433	867	Federal Fund
<b>University of Kansas</b>			
District Chilled Water Plant	156	9,944	State Fund and University Funds
Spencer Museum of Art Phase 1 Improvements	4,913	1,987	Private Gifts
Bailey Hall HVAC Upgrades	48	4,652	State Fund and University Funds
Chalmers Hall HVAC Upgrades	88	8,712	State Fund and University Funds
Parking Improvements	1,175	12,125	University Parking Funds
Earth, Energy and Environment Center North (EEEC-North)	17,489	64,511	Revenue Bonds, University Funds and Private Gifts
Simons Laboratory Addition	183	13,817	KUCR Funds and Private Gifts
Summerfield Hall Partial Remodel for Film and Media Studies	701	2,999	University Funds and Private Gifts
Grace Pearson Scholarship Hall Renovation	94	1,706	University Housing Funds
Miller Scholarship Hall	598	1,402	University Housing Funds
Watkins Scholarship Hall Renovation	161	1,889	University Housing Funds
Haworth Electrical Distribution System	4,005	1,395	University funds
Summerfield Hall HVAC & Electrical Improvements	708	4,612	University funds
Watkins Memorial Health Center	921	5,300	University funds
<b>University of Kansas Medical Center</b>			
Health Education Building Construction and Architectural Contracts	19,649	45,423	State General Fund and Private Gifts
Parking Facility #5 Construction at 37th/38th Ave and Eaton/Cambridge Street	15,874	19,859	Parking Revenue
<b>Wichita State University</b>			
Campus Wayfinding and Signage	1,373	68	General Fees
<b>Total</b>	<u>\$ 1,402,284</u>	<u>\$ 330,367</u>	

State of Kansas  
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**III. Detailed Notes On All Funds**

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*Significant encumbrances at June 30, 2016 (amounts in thousands)*

<b>Fund</b>	<b>Amount</b>
General	\$ 29,494
Social Services	43,555
Health and Environment	92,470
Transportation	982,022
Other Governmental Funds	133,674
Total	<u>\$ 1,281,215</u>

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### III. Detailed Notes On All Funds

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#### G. Interfund Receivables, Payables, and Transfers

##### *Due from/to other funds*

Due from/to other funds represent interfund accounts receivable and payable. The total of due from/to other funds at June 30, 2016, is as follows (expressed in thousands):

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Non-major Business Type Fund	\$ 5,411
Non-major Governmental Funds	General Fund	21,895
	Non-major Governmental Funds	381
	Internal Service Funds	1,114
		<u>\$ 28,801</u>

The interfund balances designated as due from/to other funds are short-term receivables and payables resulting from the time lag between the dates that a) interfund goods and services are provided or reimbursable expenditures occur; b) transactions are recorded in the accounting system; and c) payments between funds are made.

##### *Advances to/from other funds*

Advances to/from other funds represent long-term loans from one fund to another fund. Advances at June 30, 2016, were as follows (expressed in thousands):

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Non-major Governmental Funds	General Fund	\$ 134,831
	Non-major Governmental Funds	1,246
	Internal Service Funds	1,767
		<u>\$ 137,844</u>

The amounts payable to the Non-major Governmental Funds relate to expected claims from escheated property, see Note IV, Section B, Contingencies and Commitments for further information. The remainder of the advance to/from have to do with the Master Lease Purchase Program, see NOTE III, Section I, Master Lease Purchase Program for further information.

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### III. Detailed Notes On All Funds

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#### *Transfers*

Net transfers by major funds are as follows (expressed in thousands):

Fund	Net Transfers In	Net Transfers Out
General	\$ 212,331	\$ 0
Social Services	794,572	0
Health & Environment	0	778,233
Education	268,743	0
Transportation	0	244,160
Non-major Governmental	0	71,800
Unemployment Insurance	0	818
Health Care Stabilization	2,712	0
Non-major Enterprise Funds	0	171,823
Internal Service Funds	0	11,524
Total	<u>\$ 1,278,358</u>	<u>\$ 1,278,358</u>

Transfers are used to (1) move revenues from fund that the statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts and (3) use unrestricted revenues collected in a fund that is used to finance various programs and capital outlay projects accounted for in another fund in accordance with budgetary authorizations. Any transfers within the governmental funds or within the proprietary funds have been eliminated in the Government-Wide Statement of Activities.

#### **H. Short-term Obligations**

Short-term obligations at June 30, 2016, and changes for the fiscal year then ended (expressed in thousands) are as follows:

	6/30/2015 Beginning Balance	Additions	Deletions	6/30/2016 Ending Balance
<i>Governmental Activities</i>				
Certificates of Indebtedness	\$ 0	\$ 840,000	\$ 840,000	\$ 0
Accrued receivables:				
Expanded Lottery Act Revenues Fund	0	82,799	82,799	0
Children's Initiatives Fund	0	25,600	25,600	0
Correctional Institution Building Fund	0	3,994	3,994	0
State Economic Development	0	21,254	21,254	0
Kansas Endowment for Youth Fund	0	196	196	0
Kansas Educational Building Fund	0	28,200	28,200	0
State Institutions Building Fund	0	14,600	14,600	0
Total short-term obligations	<u>\$ 0</u>	<u>\$ 1,016,643</u>	<u>\$ 1,016,643</u>	<u>\$ 0</u>

A Certificate of Indebtedness may be written and issued by the Pooled Money Investment Board (PMIB), an agency of the State, per K.S.A. 75-3725a. This occurs when it appears estimated resources are sufficient in the State General Fund (SGF) to meet the State's expenditures and obligations for that fiscal year, but may not be sufficient to do so in a particular month(s) when obligations are due. Once approval has been granted as prescribed in K.S.A. 75-3725a, the written Certificate of Indebtedness is issued by the PMIB subject to redemption from the SGF not later than June 30, immediately following the issuance of the indebtedness. No interest is accrued or paid. A Certificate of Indebtedness of \$840 million was issued on July 1, 2015, and redeemed on June 30, 2016.



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### **III. Detailed Notes On All Funds**

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Per Senate Bill 112, Section 80(r) of the 2015 Session, on July 1, 2015, receivables are to be posted to the State Treasurer's receivables for the Expanded Lottery Act Revenues Fund. The receivable amount is reduced as moneys are received into the fund. In fiscal year 2016, a receivable was posted for \$82.8 million and was reduced to zero in June 2016.

Per Senate Bill 112, Section 80(h) of the 2014 Session, on July 1, 2015, receivables are to be posted to the State Treasurer's receivables for the Children's Initiatives Fund by an amount certified by the director of budget which is to be 50 percent of the estimated receipts during the year. The receivable amount is reduced as moneys are received into the fund. In fiscal year 2016 a receivable was posted for \$25.6 million and was reduced to zero in June 2016.

Per Senate Bill 112, Section 80(j) of the 2015 Session, on July 1, 2015, receivables are to be posted to the State Treasurer's receivables for the Correctional Institutions Building Fund by an amount certified by the director of budget which is to be 80 percent of the estimated receipts during the year. The receivable amount is reduced as moneys are received into the fund. In fiscal year 2016, a receivable was posted for \$4.0 million and was reduced to zero in February 2016.

Per Senate Bill 112, Section 80(i) of the 2015 Session, on July 1, 2015, receivables are to be posted to the State Treasurer's receivables for the State Economic Development Initiatives Fund by an amount certified by the director of budget which is to be 50 percent of the estimated receipts during the year. The receivable amount is reduced as moneys are received into the fund. In fiscal year 2016, a receivable was posted for \$21.3 million and was reduced to zero in December 2015.

Per Senate Bill 112, Section 80(k) of the 2015 Session, on July 1, 2015, receivables are to be posted to the State Treasurer's receivables for the Kansas Endowment for Youth Fund by an amount certified by the director of budget which is to be 75 percent of the amount approved for expenditure during the fiscal year. The receivable amount is reduced as moneys are received into the fund. In fiscal year 2016, a receivable was posted for \$196,000 and was reduced to zero in June 2016.

Per K.S.A. 76-6b11, on July 1 of each year ad valorem tax and receivables are posted to the State Treasurer's receivables for State Building Fund. The receivable is reduced as the ad valorem taxes are received. In fiscal year 2016, \$28.2 million was posted to the Kansas Educational Building Fund and \$14.6 million to the State Institutions Building Funds. The receipts were reduced to zero in June 2016.

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**III. Detailed Notes On All Funds**

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**I. Long-term Obligations**

A summary of long-term obligations at June 30, 2016, for the fiscal year then ended is as follows (expressed in thousands):

	Governmental Activities	Business-type Activities	Component Units	Total
Revenue bonds payable	\$ 4,750,952	\$ 327,577	\$ 941,839	\$ 6,020,368
Less bonds payable on demand	(147,000)	0	0	(147,000)
Notes payable	17,047	0	0	17,047
Other component units of university system	0	0	790,803	790,803
Capital leases payable	137,708	0	6,500	144,208
Arbitrage rebate payable	237	340	29	606
Claims	87,361	263,484	0	350,845
Judgments	31,784	0	0	31,784
Compensated absences	112,219	92	84,423	196,734
Other post employment benefits	4,266	26	1,816	6,108
Net pension liability	2,078,136	6,475	268,020	2,352,631
Pollution remediation	63,053	0	0	63,053
Other	0	11,732	208,246	219,978
Total long-term obligations	<u>\$ 7,135,763</u>	<u>\$ 609,726</u>	<u>\$ 2,301,676</u>	<u>\$ 10,047,165</u>

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Long-term obligations at June 30, 2016, and changes for the fiscal year then ended are as follows (expressed in thousands):

	Issue Dates	Interest Rates	Maturity Through	Original Amount of Debt	6/30/2015 Beginning Balance	Prior Period Adjustment	Additions	Deletions	6/30/2016 Ending Balance	Amounts Due In One Year
<b>Governmental Activities</b>										
<u>Revenue bonds payable:</u>										
KDFA series 2004 C	2004	3.43 - 5.50%	2034	\$ 500,000	\$ 420,600	\$ 0	\$ 0	\$ 13,440	\$ 407,160	\$ 14,085
KDFA series 2006 A	2006	4.00 - 5.00%	2027	209,490	29,425	0	0	9,380	20,045	9,815
KDFA series 2006 L-1, 2, 3	2007	4.00 - 4.25%	2026	13,210	1,715	0	0	840	875	875
KDFA series 2007 F	2007	4.00 - 4.97%	2017	34,505	8,280	0	0	4,040	4,240	4,240
KDFA series 2007 K-1, 2A, 2B, & 3	2008	4.00 - 5.25%	2028	59,455	13,820	0	0	2,530	11,290	2,635
KDFA series 2008 L-1, 2, & 3	2009	2.00 - 5.25%	2029	43,265	33,385	0	0	1,840	31,545	1,915
KDFA series 2009 A	2009	2.50 - 5.00%	2035	3,825	3,705	0	0	120	3,585	125
KDFA series 2009 B	2009	5.00%	2019	515	420	0	0	95	325	100
KDFA series 2009 F	2009	3.00 - 5.00%	2019	49,425	26,685	0	0	6,240	20,445	6,550
KDFA series 2009 M-1 & M-2	2010	3.00 - 6.31%	2035	89,765	75,645	0	0	3,600	72,045	3,195
KDFA series 2009 N	2010	3.88 - 5.80%	2025	10,050	9,340	0	0	735	8,605	770
KDFA series 2010 C	2010	5.00%	2020	52,755	32,130	0	0	5,815	26,315	6,105
KDFA series 2010 E-1 & E-2	2010	2.00 - 6.12%	2035	84,160	74,285	0	0	5,945	68,340	5,970
KDFA series 2010 F	2010	1.58 - 6.25%	2032	18,400	12,640	0	0	1,855	10,785	1,500
KDFA series 2010 O-1 & O-2	2011	2.70 - 6.10%	2030	43,455	36,205	0	0	1,925	34,280	1,975
KDFA series 2011 B	2012	2.00 - 4.13%	2031	53,780	45,140	0	0	2,105	43,035	2,170
KDFA series 2011 K	2012	3.00 - 5.00%	2023	109,135	97,645	0	0	1,265	96,380	1,330
KDFA series 2013 A-1, 2 & 3	2014	4.00 - 5.00%	2033	71,885	66,735	0	0	3,370	63,365	3,510
KDFA Series 2013 B	2014	3.00 - 5.00%	2024	40,555	34,200	0	0	4,880	29,320	5,125
KDFA Series 2015 A	2015	3.20 - 5.00%	2035	230,475	230,475	0	0	830	229,645	4,455
KDFA Series 2015 G	2015	4.84 - 5.00%	2035	203,585	203,585	0	0	0	203,585	0
KDFA Series 2015 H	2016	1.44 - 4.927%	2045	1,005,180	0	0	1,005,180	0	1,005,180	18,300
KDOT series 2004 A	2004	4.50 - 5.50%	2019	250,000	76,235	0	0	0	76,235	0
KDOT series 2004 B	2005	4.30 - 5.00%	2025	200,000	200,000	0	0	200,000	0	0
KDOT series 2004 C*	2005	Variable	2025	147,000	147,000	0	0	0	147,000	0
KDOT series 2009 A	2010	2.25 - 5.00%	2021	176,680	176,680	0	0	20,445	156,235	61,965
KDOT series 2010 A	2011	4.60%	2036	325,000	325,000	0	0	0	325,000	0
KDOT series 2012 A	2013	Variable	2016	151,365	38,225	0	0	38,225	0	0
KDOT series 2012 B	2013	5.00%	2023	144,885	144,885	0	0	0	144,885	0
KDOT series 2012 C	2013	4.00 - 5.00%	2033	200,000	200,000	0	0	7,000	193,000	7,200
KDOT series 2014 A	2015	5.00%	2031	250,000	250,000	0	0	0	250,000	0
KDOT series 2014 B	2015	Variable	2020	212,875	212,875	0	0	37,000	175,875	38,145
KDOT series 2015 A	2016	2.75 - 5.00%	2025	190,875	0	0	190,875	0	190,875	0
KDOT series 2015 B	2016	5.00%	2036	400,000	0	0	400,000	0	400,000	0
Series 2015 L Private Placement	2016	2.32%	2031	16,600	0	0	16,600	16,600	0	0
Less bonds payable on demand*				(705,985)	(147,000)	0	0	0	4,449,495	202,055
Plus deferred amounts:									(147,000)	0
Net unamortized premium (discount)				0	212,151	0	122,880	33,574	301,457	0
Total revenue bonds payable				\$ 4,886,165	3,292,111	0	1,735,535	423,694	4,603,952	202,055
<u>Notes payable:</u>										
Water supply storage in federal reservoirs				29,189	18,093	0	0	1,046	17,047	894
Total notes payable				\$ 29,189	18,093	0	0	1,046	17,047	894
Arbitrage rebate payable					184	0	72	19	237	0
Capital leases payable					80,809	0	66,962	10,063	137,708	8,467
Claims					100,255	0	43,415	56,309	87,361	42,176
Judgments					48,721	0	17,208	34,145	31,784	25,552
Compensated absences					113,015	0	59,948	60,744	112,219	57,731
Other post employment benefits					59,504	0	0	55,238	4,266	0
Net pension liability					1,750,877	146,999	190,646	10,386	2,078,136	0
Pollution remediation					48,747	0	14,306	0	63,053	16,817
Total governmental activities				\$ 5,512,316	\$ 146,999	\$ 2,128,092	\$ 651,644	\$ 7,135,763	\$ 353,692	

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### III. Detailed Notes On All Funds

	Issue Dates	Interest Rates	Maturity Through	Original Amount of Debt	6/30/2015 Beginning Balance	Additions	Deletions	6/30/2016 Ending Balance	Amounts Due In One Year
<b>Business-type Activities</b>									
Revenue bonds payable:									
KDFA series 2001 I & II	2002	5.00 - 5.50%	2018	\$ 124,540	\$ 31,000	\$ 0	\$ 28,390	\$ 2,610	\$ 2,610
KDFA series 2004 II	2004	4.92 - 5.25%	2023	45,140	2,915	0	2,915	0	0
KDFA series 2004 I & 2	2005	3.00 - 5.00%	2019	176,010	940	0	940	0	0
KDFA series 2005 CW I & II	2006	3.00 - 5.00%	2027	118,860	36,980	0	13,025	23,955	5,755
KDFA series 2009 DW 1 & 2	2010	1.50 - 5.60%	2029	73,040	36,070	0	1,030	35,040	1,100
KDFA series 2010 SRF 1,2 & 3 (CW & DW)	2011	1.68 - 5.95%	2030	213,950	183,325	0	8,935	174,390	8,080
KDFA series 2011 SRF DW 1 & 2	2011	2.00-4.20%	2031	53,380	52,655	0	1,380	51,275	1,395
KDFA series 2005 TR	2006	3.00 - 5.00%	2026	32,690	15,395	0	15,395	0	0
KDFA series 2006 TR	2007	4.00 - 5.00%	2027	24,755	10,670	0	2,070	8,600	1,585
KDFA series 2008 G	2009	4.60 - 5.05%	2023	14,200	996	0	209	787	219
KDFA series 2009 TR	2009	2.50 - 4.78%	2028	30,950	19,495	0	1,550	17,945	2,140
KDFA series 2014 SRF-1	2015	0.50%	2016	5,200	5,200	0	5,200	0	0
KDFA series 2015 SRF-1 (CW & DW)	2016	0.25 - 0.50%	2017	4,500	0	4,500	0	4,500	4,500
Plus deferred amounts:									
Net unamortized premium (discount)				0	11,415	0	2,940	8,475	2,188
Total revenue bonds payable				<u>\$ 917,215</u>	<u>407,056</u>	<u>4,500</u>	<u>83,979</u>	<u>327,577</u>	<u>29,572</u>
Arbitrage rebate payable									
Claims and judgments					237	103	0	340	0
Compensated absences					258,093	19,791	14,400	263,484	18,289
Other					92	0	0	92	76
Other post employment benefits					11,680	52	0	11,732	0
Net pension liability					424	0	398	26	0
Total business-type activities					<u>\$ 683,102</u>	<u>\$ 26,310</u>	<u>\$ 99,686</u>	<u>\$ 609,726</u>	<u>\$ 47,937</u>

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	Issue Dates	Interest Rates	Maturity Through	Original Amount of Debt	6/30/2015 Beginning Balance	Additions	Deletions	6/30/2016 Ending Balance	Amounts Due In One Year
<b>Component Units</b>									
Revenue bonds payable:									
KDFA series 2001 B	2001	3.65 - 5.20%	2021	\$ 2,805	\$ 1,135	\$ 0	\$ 165	\$ 970	\$ 175
KDFA series 2001 W-1	2002	3.00 - 5.00%	2022	44,470	800	0	100	700	100
KDFA series 2002 H	2003	2.50 - 4.70%	2022	3,765	1,635	0	205	1,430	215
KDFA series 2002 N-2	2003	3.00 - 5.25%	2018	52,075	1,025	0	325	700	340
KDFA series 2003 A-2	2003	1.80 - 5.50%	2023	1,385	115	0	115	0	0
KDFA series 2003 C	2003	4.67 - 5.00%	2024	2,305	2,305	0	0	2,305	0
KDFA series 2003 D-2	2003	2.00 - 4.13%	2018	1,150	365	0	365	0	0
KDFA series 2005 D	2005	3.79 - 5.18%	2022	66,530	16,960	0	7,480	9,480	1,980
KDFA series 2005 E-1 & E-2	2005	3.00 - 5.00%	2030	19,360	680	0	680	0	0
KDFA series 2005 F	2006	3.25 - 4.40%	2026	8,930	6,160	0	450	5,710	475
KDFA series 2005 G	2006	3.30 - 4.60%	2026	7,205	5,180	0	5,180	0	0
KDFA series 2006 B	2006	3.50 - 4.13%	2021	9,790	7,875	0	1,185	6,690	1,230
KDFA series 2007 E	2007	3.75 - 4.30%	2027	6,275	4,340	0	290	4,050	300
KDFA series 2007 H	2008	3.60 - 4.50%	2037	17,855	15,225	0	15,225	0	0
KDFA series 2007 M	2008	3.50 - 4.60%	2027	18,220	13,000	0	860	12,140	895
KDFA series 2008 A	2008	3.00 - 4.00%	2016	20,000	2,500	0	2,500	0	0
KDFA series 2008 D	2008	5.10%	2038	1,600	1,600	0	0	1,600	0
KDFA series 2008 L	2009	2.00 - 5.25%	2029	21,070	16,435	0	865	15,570	895
KDFA series 2009 C	2009	3.00 - 5.00%	2017	20,000	5,000	0	2,500	2,500	2,500
KDFA series 2009 G	2009	2.50 - 4.75%	2024	825	540	0	50	490	55
KDFA series 2009 H-1 & H-2	2009	2.50 - 7.30%	2035	14,630	13,050	0	425	12,625	440
KDFA series 2009 J-1 & J-2	2009	2.50 - 7.00 %	2030	4,545	3,700	0	185	3,515	190
KDFA series 2009 K-1 & K-2	2010	2.63 - 5.63%	2040	6,140	5,795	0	125	5,670	130
KDFA series 2009 M-1 & M-2	2010	3.00 - 6.31%	2030	27,150	22,435	0	1,300	21,135	1,360
KDFA series 2010 A	2010	2.00 - 4.05%	2030	23,700	20,105	0	1,070	19,035	1,115
KDFA series 2010 B	2010	2.50 - 3.75%	2027	21,650	16,890	0	1,155	15,735	1,205
KDFA series 2010 G-1 & G-2	2010	2.00 - 6.60%	2040	21,565	20,560	0	510	20,050	525
KDFA series 2010 H	2010	2.00%	2016	1,530	250	0	250	0	0
KDFA series 2010 J	2010	0.75 - 4.45%	2030	14,765	11,845	0	610	11,235	630
KDFA series 2010 K-1 & K-2	2010	2.00 - 6.20%	2035	15,050	10,605	0	310	10,295	705
KDFA series 2010 M-1 & M-2	2010	2.00 - 5.10%	2026	20,990	16,140	0	1,275	14,865	1,305
KDFA series 2010 P-1 & P-2	2011	2.00 - 5.00%	2031	15,930	13,370	0	685	12,685	705
KDFA series 2010 U-1 & U-2	2011	1.80 - 6.20%	2029	25,180	18,500	0	1,710	16,790	1,725
KDFA series 2011 C	2011	2.00 - 4.50%	2036	13,450	11,935	0	395	11,540	405
KDFA series 2011 D-1, 2 & 3	2011	2.00 - 4.40%	2024	9,465	6,375	0	840	5,535	860
KDFA series 2011 G	2012	0.50 - 4.13%	2041	16,300	14,500	0	375	14,125	385
KDFA series 2012 A	2012	3.00 - 5.00%	2024	27,610	21,620	0	2,205	19,415	2,315
KDFA series 2012 D	2012	2.00 - 4.50%	2029	49,200	44,145	0	1,755	42,390	2,390
KDFA series 2012 F	2013	2.00 - 5.00%	2033	17,205	15,960	0	650	15,310	665
KDFA series 2012 H	2012	2.00 - 5.00%	2034	35,970	34,270	0	1,205	33,065	1,275
KDFA series 2014 A-1 & 2	2014	3.00 - 4.25%	2035	35,175	34,790	0	950	33,840	1,425
KDFA series 2014 B	2014	0.50%	2019	2,423	1,943	0	482	1,461	485
KDFA series 2014 C-1, 2, 3, 4 & :	2014	3.00 - 5.00%	2039	56,655	56,620	0	1,245	55,375	1,860
KDFA series 2014 D-1, 2, 3 & 4	2014	3.00 - 5.00%	2035	133,550	132,280	0	2,015	130,265	4,055
KDFA series 2013 G-1 & 2	2014	4.00 - 5.00%	2038	77,335	76,815	0	2,455	74,360	2,590
KDFA series 2015 B-1, 2 & 3	2015	3.00 - 5.00%	2037	61,865	61,865	0	2,385	59,480	1,820
KDFA series 2016 A	2016	2.00 - 4.00%	2040	97,815	0	97,815	0	97,815	2,930
KDFA series 2016 B-1, 2 & 3	2016	2.00 - 4.00%	2041	31,115	0	31,115	0	31,115	520
KDFA series 2016 C	2016	2.00 - 4.00%	2041	45,330	0	45,330	0	45,330	0
Series 2015 K	2016	0.61%	2021	1,500	0	1,500	0	1,500	246
2015 M FCIP	2016	0.75%	2023	2,136	0	2,136	0	2,136	298
Plus deferred amounts:									
Net unamortized premium (discount)				0	36,537	6,411	3,136	39,812	0
Total revenue bonds payable				<u>\$ 1,252,539</u>	<u>825,775</u>	<u>184,307</u>	<u>68,243</u>	<u>941,839</u>	<u>43,719</u>
Other component units of university system					406,927	450,579	66,703	790,803	31,259
Arbitrage rebate payable					404	103	478	29	0
Capital leases					7,752	-	1,252	6,500	1,308
Compensated absences					78,459	68,992	63,028	84,423	70,007
Other					221,062	359	13,175	208,246	13,732
Other post employment benefits					71,015	588	69,787	1,816	0
Net pension liability					240,024	46,043	18,047	268,020	0
Total component units					<u>\$ 1,851,418</u>	<u>\$ 750,971</u>	<u>\$ 300,713</u>	<u>\$ 2,301,676</u>	<u>\$ 160,025</u>

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### III. Detailed Notes On All Funds

The following table presents annual debt service requirements for those long-term debts outstanding, including bonds payable on demand, at June 30, 2016, which have scheduled debt service amounts (expressed in thousands):

	Governmental Activities		Business-type Activities		Component Units	
	Principal	Interest	Principal	Interest	Principal	Interest
Revenue bonds:						
2017	\$ 202,055	\$ 200,030	\$ 27,384	\$ 14,849	\$ 43,719	\$ 36,703
2018	216,380	192,589	25,639	13,620	45,105	34,420
2019	223,400	183,486	35,912	12,381	44,571	32,646
2020	229,925	172,791	29,198	10,929	45,681	30,799
2021	224,980	162,370	32,180	9,544	47,495	28,794
2022-2026	1,071,485	660,007	117,239	27,125	237,295	113,157
2027-2031	965,150	423,921	51,550	6,337	195,590	67,792
2032-2036	859,630	205,304	0	0	154,220	34,445
2037-2041	229,150	90,870	0	0	76,995	9,987
2042-2046	227,340	28,676	0	0	11,356	920
Less bonds payable on demand	(147,000)	(40,729)	0	0	0	0
Unamortized premium	301,457	0	8,475	0	39,812	0
Totals	<u>4,603,952</u>	<u>2,279,315</u>	<u>327,577</u>	<u>94,785</u>	<u>941,839</u>	<u>389,663</u>
Notes payable:						
2017	894	544	0	0	0	0
2018	1,024	649	0	0	0	0
2019	1,062	610	0	0	0	0
2020	1,102	570	0	0	0	0
2021	1,144	529	0	0	0	0
2022-2026	5,956	1,962	0	0	0	0
2027-2031	5,432	796	0	0	0	0
2032-2036	433	37	0	0	0	0
Totals	<u>17,047</u>	<u>5,697</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Capital leases payable	137,708	52,706	0	0	6,500	796
Long-term debt without scheduled						
Debt service:						
Arbitrage rebate payable	237	0	340	0	29	0
Claims and judgments	119,145	0	263,484	0	0	0
Compensated absences	112,219	0	92	0	84,423	0
Other post employment benefits	4,266	0	26	0	1,816	0
Net pension liability	2,078,136	0	6,475	0	268,020	0
Pollution remediation	63,053	0	0	0	0	0
Component units of university system	0	0	0	0	790,803	0
Other	0	0	11,732	0	208,246	0
Total long-term obligations	<u>\$ 7,135,763</u>	<u>\$ 2,337,718</u>	<u>\$ 609,726</u>	<u>\$ 94,785</u>	<u>\$ 2,301,676</u>	<u>\$ 390,459</u>

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### III. Detailed Notes On All Funds

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Included in the debt service requirements to maturity table above are variable rate debt maturities for the Kansas Department of Transportation. For those variable rate bonds the following table represents the aggregate debt service requirements and net receipts/payments on associated hedging derivative instruments as of June 30, 2016. These amounts assume that current interest rates on variable-rate bonds and the current reference rates of hedging derivative instruments will remain the same for their entire term. As these rates vary, interest payments on variable-rate bonds and net receipts/payments on the hedging derivative instruments will vary.

*(expressed in thousands)*

Fiscal Year Ended June 30	Principal	Interest	Hedging Derivative Instruments (Net)	Total
2017	38,145	1,504	6,652	46,301
2018	39,520	1,293	5,545	46,358
2019	49,945	997	4,283	55,225
2020	48,265	663	2,878	51,806
2021	0	603	2,148	2,751
2022-2025	147,000	1,104	4,739	152,843
Total	<u>\$ 322,875</u>	<u>\$ 6,164</u>	<u>\$ 26,245</u>	<u>\$ 355,284</u>

#### General Obligation Bonds

The State does not have the statutory authority to issue general obligation bonds. However, the Legislature has authorized the issuance of specific purpose revenue bonds and other forms of long-term obligations.

#### Revenue Bonds

**Kansas Turnpike Authority (KTA)** has five outstanding series of Turnpike Revenue Bonds to finance part of the costs of construction, reconstruction, maintenance or improvement of the Kansas Turnpike. Principal and interest payments on these bond issues are paid from revenues collected from the operations of KTA, including toll revenues. Please reference Note III, Section I, Long-term Obligations, for KTA revenue bonds and future principal and interest payments.

**Kansas Development Finance Authority (KDFA)** was created to enhance the ability of the State to finance capital improvements and improve access to long-term financing for State agencies, political subdivisions, public and private organizations, and businesses. The KDFA has issued numerous outstanding series of bonds. These revenue bonds are secured by and payable from various pledged revenues, which include selected tax receipts such as withholding taxes, fees for services such as parking and residential halls, and appropriations. Please reference Note III, Section I, Long-term Obligations, for KDFA revenue bonds and future principal and interest payments.

**Kansas Department of Transportation (KDOT)** has ten outstanding series of Highway Revenue Bonds to finance part of the costs of construction, reconstruction, maintenance or improvement of highways in the State as part of the State's Transportation Works for Kansas (T-Works) Program. The State's T-Works Program was developed by KDOT after extensive study of the transportation needs in the State and was implemented by the 2010 Kansas Legislature. Principal and interest payments on these bond issues are paid from revenues collected in the State Highway Fund, which include motor fuels taxes, state sales taxes, compensating use taxes, and drivers' license and vehicle registration fees. KDOT also has four outstanding series secured by pledges of revenues from loans and leases. Please reference Note III, Section I, Long-term Obligations, above for KDOT revenue bonds and future principal and interest payments.

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### **III. Detailed Notes On All Funds**

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The coupon interest rate on outstanding bonds varies from 2.25 percent to 5.50 percent. In addition, various bonds were issued as variable rate instruments whose rates change on a weekly basis. During the year, interest rates ranged from 0.01 percent to 0.52 percent on the weekly adjustable bonds. The Series 2004 C bonds are demand obligations and are subject to tender under certain conditions. If the tendered bonds cannot be remarketed, various liquidity providers have agreed to purchase the bonds and hold them for a maximum of 180 days. The contract with the liquidity provider has an expiration date of September 2017 and requires an annual commitment fee of 0.325%.

#### **Sales Tax Limited Obligation Bonds**

Sales tax limited obligation bonds (STAR bonds) have been issued for various local governments throughout the state. Pursuant to issuance of the STAR bonds, the State and local governments have entered into Redevelopment District Tax Distribution Agreements. The agreements provide that the principal of, accreted value, and interest on the STAR bonds will be paid proportionally from the State's and the local governments' respective share of sales taxes generated within the related Districts. These bonds are special limited obligations of the State, where neither the principal of, redemption premium, if any, nor interest on these bonds constitutes a general obligation or indebtedness of, nor is the payment thereof guaranteed by the State. Accordingly, such STAR bonds are not included in the State's June 30, 2016 balance sheet. The State's portion of the STAR bonds at June 30, 2016 total \$278.2 million.

#### **Special Obligation and Private Activity Bonds**

Special obligation bonds have various revenue streams that are pledged for repayment of principal and interest. These bonds are special limited obligations of KDFA, where neither the principal of, redemption premium, if any, nor interest on these bonds constitutes a general obligation or indebtedness of, nor is the payment thereof guaranteed by KDFA or the State. Accordingly, such special obligation bonds are not included in KDFA's June 30, 2016, balance sheet. KDFA's special obligation bonds at June 30, 2016, total \$3.6 billion.

Private activity bonds are special limited obligations of KDFA and are made payable solely from a pledge of the applicable trust estate that is comprised of a particular designated revenue stream of the borrower. Accordingly, such private activity bonds are not included on KDFA's June 30, 2016, balance sheet. KDFA's private activity bonds at June 30, 2016, total \$1.6 billion.

#### **Notes Payable**

The Pooled Money Investment Board is authorized as directed by statute to loan funds from the State treasury to State agencies for various capital projects, the Unemployment Insurance Fund and finance the Expanded Lottery operations. These internal loans are recorded as loans receivable in the State treasury's cash balance in Note III, Section A, Deposits and Investments, and in corresponding amounts of notes payable in Note III, Section I, Long-term Obligations.

The Kansas Water Office is charged by statute to meet, as nearly as possible, the anticipated future water supply needs of the citizens of Kansas. The agency has executed several water supply storage agreements with the Federal Government over the past 40 years for water supply storage capacity in large Federal multipurpose lakes under the provisions of the 1958 Federal Water Supply Act. Nine of these agreements provide for long-term (fifty-year) repayment with interest of the costs incurred by the Federal Government in construction of the water supply storage space. The Kansas Water Office is authorized by K.S.A. 82a-934 to enter into such agreements, subject to legislative approval through appropriations. Generally, however, receipts from the sale of water to local municipal and industrial water supply users are adequate to make the annual payments due under the long-term contracts with the Federal Government. Portions of the storage in some reservoirs have been designated as "future use" storage, and as such; the State is not required to make payments on that portion of storage until it is needed by users. The State has not recorded a liability at June 30, 2016, for portions of the storage designated as "future use" storage.



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### III. Detailed Notes On All Funds

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#### Lease Commitments

The State leases office buildings, space, and equipment. Although the lease terms vary under a variety of agreements, most leases are subject to annual appropriations from the State Legislature to continue the lease obligations. If a legislative appropriation is reasonably assured, leases are considered non-cancelable for financial reporting purposes. Any escalation clauses, sublease rentals, and contingent rents are considered immaterial to the future minimum lease payments and current rental expenditures.

#### Operating Leases

The State has commitments with non-state entities to lease certain buildings and equipment. Future minimum rental commitments for building and equipment operating leases as of June 30, 2016 are as follows (expressed in thousands):

Fiscal Year	
2017	10,427
2018	9,869
2019	9,290
2020	8,708
2021	9,797
2022-2026	33,504
2027-2031	22,875
2032-2036	15,786
2037-2041	4,820
Total future minimum lease payments	<u>\$ 125,076</u>
 Rent expenditures/expenses for operating leases for the year ended June 30, 2016	 <u>\$ 9,825</u>

#### Capital Leases

The State has entered into agreements to lease various facilities and equipment. Such agreements are, in substance, purchases and are reported as capital lease obligations. At the date of acquisition, the assets are valued on the Statement of Net Position at the present value of the future minimum lease payments. Interest expense for capital leases is not capitalized.

The following schedule presents future minimum lease payments as of June 30, 2016 (expressed in thousands):

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### III. Detailed Notes On All Funds

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Year Ending June 30	Governmental Activities	
	Principal	Interest
2017	\$ 8,467	\$ 5,767
2018	8,437	5,473
2019	8,376	5,123
2020	8,372	4,765
2021	8,364	4,398
2022-2026	39,099	16,798
2027-2031	38,164	8,268
2032-2036	16,316	1,832
2037-2046	2,113	282
<b>Total</b>	<u>\$ 137,708</u>	<u>\$ 52,706</u>

Leased land, buildings, and equipment under capital leases in capital assets at June 30, 2016, include the following (expressed in thousands):

	Governmental Activities
Land (non-depreciable)	\$ 14,203
Buildings	128,010
Equipment	31,265
Less: Accumulated depreciation	(54,589)
<b>Total</b>	<u>\$ 118,889</u>

#### **Master Lease Purchase Program**

The Master Lease Purchase Program, administered by the Department of Administration, provides low interest, equipment lease purchase financing and energy conservation project financing to State agencies. The Program began in 1985 with the issuance of Certificates of Participation and evolved into the current Program, which utilizes lines of credit. Lease purchase obligations under the Program are not general obligations of the State, but are payable from appropriations of State agencies participating in the Program, subject to annual appropriation. Financing terms of two years through fifteen years are available. The financing term should not exceed the useful life of the purchased item. The interest component of each lease/purchase payment is subject to a separate determination.

#### ***Defeasance of Debt***

##### **Primary Government**

For financial reporting purposes, the State has in substance defeased certain bonds by issuing additional debt. Thus, the related liability and trust assets to pay the defeased bonds have been removed from the financial statements in the year of defeasance. Defeased debt at June 30, 2016, and changes for the fiscal year then ended are as follows (expressed in thousands):

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Bond Issue	6/30/2015 Beginning Balance	Current Year Defeased	Payments	6/30/2016 Ending Balance
<b>Governmental Activities</b>				
KDOT Series 2004 B	\$ 0	\$ 200,000	\$ 0	\$ 200,000
KDFA Series 2006A	117,740	0	0	117,740
KDFA Series 2006L	5,835	0	0	5,835
KDFA Series 2007K	30,645	0	0	30,645
Total governmental activities	<u>\$ 154,220</u>	<u>\$ 200,000</u>	<u>\$ 0</u>	<u>\$ 354,220</u>

During fiscal year 2016, the governmental activity bond issue, \$200 million KDOT Series 2004B was advanced refunded by the issuance of the KDFA Series 2015A for \$190.9 million. The advance refunding resulted in an economic gain of \$28 million and aggregate debt service reduction of \$17 million.

Bond Issue	6/30/2015 Beginning Balance	Current Year Defeased	Payments	6/30/2016 Ending Balance
<b>Business-type Activities</b>				
KDFA Series 2000 II	\$ 0	\$ 17,390	\$ 0	\$ 17,390
KDFA Series 2004 2	2,195	0	2,195	0
KDFA Series 2004 DW 1&2	13,580	0	13,580	0
KDFA 2005 II	0	1,675	0	1,675
KDFA Series 2005 CW II	11,315	0	11,315	0
KDFA Series 2009 DW 1&2	29,515	0	560	28,955
Total business-type activities	<u>\$ 56,605</u>	<u>\$ 19,065</u>	<u>\$ 27,650</u>	<u>\$ 48,020</u>

During fiscal year 2016, the business activity bond issue, \$17.4 million KDFA Series 2000 II and \$1.7 million KDFA Series 2005 II was advance refunded by cash funds provided from loan principal prepayments. Overall the advance refunding reduced debt service payments, including interest, over the life of the debt by \$0.2 million.

#### Component Unit

For financial reporting purposes, the Kansas Development Finance Authority has in substance defeased certain revenue and lease revenue bonds by issuing additional debt. Thus, the related liability and trust assets to pay the defeased lease revenue bonds have been removed from the financial statements in the year of defeasance. Defeased debt at June 30, 2016, and changes for the fiscal year then ended are as follows (expressed in thousands):

Bond Issue	6/30/2015 Beginning Balance	Current Year Defeased	Payments	6/30/2016 Ending Balance
<b>Component Units</b>				
KDFA Series 2003 A-1 & 2	\$ 1,225	\$ 0	\$ 0	\$ 1,225
KDFA Series 2004 D	515	0	95	420
KDFA Series 2005 A	1,035	0	35	1,000
KDFA Series 2007 A	8,005	0	670	7,335
KDFA series 2007 H	0	15,225	0	15,225
Total component units	<u>\$ 10,780</u>	<u>\$ 15,225</u>	<u>\$ 800</u>	<u>\$ 25,205</u>

#### Arbitrage Rebate Payable

Estimated arbitrage rebate payables have been calculated and liabilities recorded of \$237 thousand for Governmental Activities, \$340 thousand for Business-type Activities, and \$29 thousand for Component Units.

### III. Detailed Notes On All Funds

#### *Derivative Instruments*

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2016, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2016 financial statements are as follows debit (credit) (expressed in thousands):

		<u>Change in Fair Value</u>		<u>Fair Value at June 30, 2016</u>		
	<u>Classification</u>		<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	<u>Notional</u>
<b>Governmental activities</b>						
Cash flow hedges:						
Pay-fixed interest rate swaps	Deferred outflow of resources	\$	2,911	Debt	\$ (14,983)	\$ 247,875
Investment derivative instruments:						
Pay-fixed interest rate swaps	Investment revenue		3,316	Investment	(12,355)	75,000

KDOT engaged an independent party to perform the valuations and required tests on the swaps. Of the swaps that qualify for hedge accounting under GASB 53, the changes in fair value for this period are to be offset by a corresponding deferred inflow/outflow account on the statement of net position.

All pay-fixed swap transactions are associated with variable debt. Combining a pay-fixed receive-variable rate swap with variable debt results in what is termed synthetic fixed rate debt. It is called synthetic because the economics are similar to fixed rate debt, but another instrument is involved unlike regular fixed rate debt. Each time KDOT created synthetic fixed rate debt, a comparison and determination was made that the fixed rate on regular debt would have been higher than the fixed rate on the swap.

For all swaps, there are three main strategies KDOT pursues with respect to each transaction. Each swap can achieve one or more of these strategies. Then as a result of execution of the derivative, its value will change with respect to how prevailing rates on each reporting period compare to when the derivative was put in place. The accumulated changes in fair value, or total fair value of all the derivatives, are a function of how prevailing interest rates and other market factors affect each transaction at each reporting period. Pursuant to GASB 53, each swap transaction is then evaluated to determine what type of accounting treatment to apply.

(i) Mitigate the effect of fluctuations in variable interest rates. This is the primary function of the swaps employed where KDOT pays a fixed rate, and receives a floating rate. In an interest rate environment whose level is generally higher than the rate at which KDOT is fixed, the swap would result in a positive value to KDOT. Correspondingly, in a lower rate environment than the rate at which KDOT is fixed, the swap would result in a negative value to KDOT. The value primarily depends on the overall level of interest rates on the reporting date compared to what KDOT pays. The overall level of long term interest rates from period to period is the primary driver of changes in value recorded from the investment derivatives where KDOT pays fixed and receives a floating rate. Interest rates have trended lower since inception of the pay fixed swaps. Therefore, the mark-to-market value is generally more negative to KDOT.

(ii) Reduce interest expense from expected benefit resulting from the difference between short and long term rates. This is the function of a swap where KDOT receives floating amounts based on a longer term index with the expectation of receiving an ongoing net benefit compared to short term rates paid on the variable bonds being hedged. Longer term interest rates, such as the 10 Year Constant Maturity Swap (CMS) Index, are generally higher than shorter term interest rates, such as a weekly rate, which KDOT pays on the variable bonds. Therefore, when shorter term interest rates came close to, or exceeded longer term rates, KDOT entered into a swap whose receipts

### III. Detailed Notes On All Funds

on the floating leg are based on a longer term index that is expected to outperform the payments on KDOT's variable debt. Part of the fair value of this swap is determined by the prevailing level of short term versus long term rates, that is, the steepness of the yield curve. The higher the level of long term rates compared to shorter term rates, the higher the expected benefit to KDOT. Therefore, the higher the mark-to-market value of the swap. KDOT pays a fixed rate on one part of the swap transaction and the other part of the value of this swap is determined by the prevailing level of interest rates compared to when KDOT entered into the swap transaction. Since interest rates have trended lower since inception, the mark-to-market value will be more negative to KDOT, even though KDOT may be receiving a net benefit from the receipts based on the 10 Year CMS Index. Since the long term index is expected to out-perform the short-term variable rate, the tests under GASB 53 deem such transactions investment instruments.

(iii) Reduce interest expense from expected benefit resulting from the difference between tax-exempt and taxable rates. This is a function of swaps where KDOT receives a percentage of 1-Month LIBOR when hedging tax-exempt variable debt, with the expectation of receiving an ongoing net benefit from paying a lower fixed rate at the time of putting on the swap transaction. The historical average ratio of 1-Month LIBOR (short-term taxable rates) versus tax-exempt rates (a direct function of tax rates) is approximately 67 percent, but the ratio of long-term taxable rates and long-term tax-exempt rates is normally significantly higher than 67 percent. Therefore, the fixed rate payable in exchange for a smaller percentage of LIBOR will be significantly less than a long-term tax-exempt fixed rate. This reduction in fixed rate is the value of the benefit (the risk being tax rates change over the life of the percentage of LIBOR swap, or the variable rates on KDOT's hedged bonds do not closely match the percentage of LIBOR variable rate on the swap. The value of such a swap is determined by the prevailing level of taxable interest rates, with no reference to tax-exempt interest rates.

The following table provides a summary of the basic terms of the swap agreements as of June 30, 2016 (expressed in thousands):

Associated KDOT Bonds	Initial Notional	Current Notional	Effective Date	Maturity Date	Rate Paid	Rate Received	Fair Value	Bank Counterparty	Counterparty Rating
Series 2014 B *	\$ 200,000	\$ 109,920	10/23/2002	9/1/2019	3.1640% Contractual; 0.8192% GASB 64 At-the-Market	67% of USD-LIBOR	\$ (1,191)	Goldman Sachs Bank USA	A1/A-/A
Series 2014 B *	112,139	65,955	3/1/2012	9/1/2019	3.1640% Contractual; 0.8183% GASB 64 At-the-Market	67% of USD-LIBOR	(712)	The Bank of New York Mellon	Aa2/AA-/AA-
Series 2004 C*	147,000	72,000	11/23/2004	9/1/2024	3.571%	63.5% USD-LIBOR + 0.29%	(13,080)	Goldman Sachs Bank USA	A1/A-/A
Series 2004 C**	75,000	75,000	7/1/2007	9/1/2024	3.571%	62.329% of 10 Year CMS	(12,355)	Goldman Sachs Bank USA	A1/A-/A
Total Termination Value							<u>\$(27,338)</u>		

\* - considered a fair value hedge

\*\* - considered an investment derivative

#### KDOT derivative instruments detailed discussion

*Objective of the swaps.* In order to protect against the potential of rising interest rates, KDOT has entered into four separate pay-fixed, receive-variable interest rate swaps at a cost less than what KDOT would have paid to issue fixed-rate debt.

*Terms, fair values, and credit risk.* The terms, including the fair values and credit ratings of the outstanding swaps as of June 30, 2016, are shown above. KDOT's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to follow scheduled or anticipated reductions in the associated bonds payable.

*KDOT Series 2014 B Swaps (Formerly 2002 B and C Swaps)*- In connection with the issuance of \$320 million of variable-rate KDOT Series 2002B & C Highway Revenue Refunding Bonds, on October 3, 2002, KDOT competitively bid a floating-to-fixed 67 percent of LIBOR interest rate swap. Goldman Sachs was awarded \$200

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### III. Detailed Notes On All Funds

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million of notional principal and Salomon Smith Barney was awarded \$120 million of notional principal. The executed transaction consisted of a \$320 million 17-year amortizing interest rate swap under which KDOT pays Goldman/Citibank a fixed rate of 3.164 percent and receives 67 percent of LIBOR. KDOT was able to take advantage of market conditions and effectively create fixed-rate debt at a rate lower than available in the traditional tax-exempt cash market.

On March 1, 2012, KDOT assigned with no termination payment due to or from KDOT, the Series 2002 B & C swap that was with Citigroup Financial Products Inc. as counterparty to The Bank of New York Mellon, a bank counterparty with stronger credit ratings. According to GASB 64, KDOT terminated hedge accounting on the swap with the prior counterparty, and adopted hedge accounting on the new At-the-Market swap with a fixed rate computed at prevailing interest rates on the day of termination.

On September 2, 2014, KDOT issued Series 2014B Bonds to refund the outstanding principal amounts of the Series 2002B & C Bonds. Under GASB 53, a refunding can be viewed as a termination of an existing hedging relationship and a subsequent new hedging relationship is entered into between the swap and the new bonds. This can result in a hybrid instrument that consists of an at-the market fixed rate swap with a pay fixed rate computed on the date of the refunding and an imputed borrowing that is considered a cost of refunding. This is amortized over the shorter of the life of the new bonds or refunded bonds.

*KDOT Series 2004C Swaps* - In connection with the issuance of \$147 million of variable-rate KDOT Series 2004B and 2004C Highway Revenue Bonds, on November 12, 2004, KDOT competitively bid a floating-to-fixed interest rate swap. The executed transaction consisted of a \$147 million 20-year amortizing floating-to-fixed interest rate swap whereby KDOT pays the counterparty a fixed rate of 3.571 percent and receives 63.5 percent of LIBOR plus 29 basis points. KDOT was able to take advantage of market conditions and effectively create fixed-rate debt at a rate lower than available in the traditional tax-exempt cash market.

Since many tax-exempt and municipal issuers fund capital projects with long-term traditional or synthetic fixed-rate debt, but are constrained to investing short-term for liquidity reasons, in a normal or upwardly sloped yield curve they incur “negative carry” (cost of borrowing exceeds investment rate). KDOT determined that it could mitigate this imbalance through the execution of the two Constant Maturity Swaps (CMS). On June 15, 2007, based on the results of a previously distributed competitively bid request for quotes for a swap provider, effective July 1, 2007, KDOT amended the floating index from 63.5 percent plus 29 basis points to 62.329 percent of the 10-year LIBOR CMS rate on \$75 million of the existing \$147 million swap.

*Fair value.* These mark-to-market values take into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction and any upfront payments that may have been received. All fair values were estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market’s best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps. Fair values reflect the effect of non-performance risk, which includes KDOT’s credit risk.

*Credit risk.* As of June 30, 2016, KDOT has no credit risk exposure on the rest of the swap transactions. This is due to the swaps having negative fair values, meaning the counterparties are exposed to KDOT in the amount of the derivatives’ fair values. However, should interest rates change and the fair values of the swaps become positive, KDOT would be exposed to credit risk.

The swap agreements contain varying collateral agreements with the counterparties. The swaps require collateralization of the fair value of the swap should the counterparty’s credit rating fall below the applicable thresholds.

*Basis risk.* Basis risk is the risk that the interest rate paid by KDOT on underlying variable rate bonds to bondholders differs from the variable swap rate received from the applicable counterparty. KDOT bears basis risk on each of its swaps. The swaps have basis risk since KDOT receives a percentage of LIBOR to offset the actual

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### III. Detailed Notes On All Funds

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variable bond rate KDOT pays on its bonds. KDOT is exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate KDOT pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost savings from the swap may not be realized.

*Termination risk.* KDOT or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the respective contracts. If any of the swaps are terminated, the associated variable-rate bonds would no longer be hedged to a fixed rate. If at the time of termination the swap had a negative fair value, KDOT would be liable to the counterparty for a payment equal to the swap's fair value.

#### **J. Revisions to Beginning Net Position**

Various adjustments were made to the beginning net positions and fund balances to correct errors in the prior year financial statements.

For fiscal year 2016, governmental activities beginning net position was \$8.73 billion. During the year the State made several adjustments to net position for a total reduction of \$85.7 million resulting in a restated beginning net position of \$8.67 billion. These revisions included an increase to cash and net position by \$29.9 million for cash recorded in the agency fund restricted to pay future health claims that should have been recorded in the accounting services fund, reduction to revenue by \$31.4 million to record receivables in the appropriate period and a correction of an error related to the implementation of GASB 68 which increased net pension liability and decreased net position by \$147.0 million.

For fiscal year 2016, component unit beginning net position was \$5.86 billion. During the year the State made one adjustment to net position for a total increase of \$3.0 million resulting in a restated beginning net position of \$5.87 billion. The revision made to component units was including of the Information Network of Kansas, Inc. as a component unit in fiscal year 2016. This resulted in an increase to Component Unit net position of \$3.0 million.

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## IV. Other Information

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### A. *Risk Management*

The State maintains a combination of commercial insurance and self-insurance to cover the risk of losses to which it may be exposed. This is accomplished through risk management and various outside entity commercial insurance providers. It is the policy of the State to cover the risk of certain losses to which it may be exposed through risk management activities. In general, the State is self-insured for certain health care claims (two of the five medical health plans options, prescription drug and dental), State employee workers' compensation, long-term disability, tort liability, and personal and real property losses up to the applicable deductibles (except where separate coverage is required by bond covenant). The State has commercial vehicle liability coverage on all vehicles with \$500,000 deductibles, and a statewide commercial policy on personal and real property with single limit of \$5,000,000 (except where separate coverage is required by bond covenant). Insurance settlements have not exceeded insurance coverage for the past three fiscal years.

Coverage for health care claims for prescription drugs and dental claims plus two of the five medical health plan options is provided by The Health Benefits Administration Clearing Fund for all active employees, as well as for the post-employment populations (retirees). Risk is managed by the performance of experience studies throughout the year. The liability for unpaid claims is the plan reimbursement for services rendered or prescriptions received where the payment to the provider, the member, or the claims administrator has not occurred. These liabilities are estimated by analyzing the prior payment patterns for the same coverage or medical option and are recorded with the cash reserves to pay these claims in the accounting services fund.

The State Self-insurance Fund (SSIF) is self-insured and self-administered for providing workers' compensation coverage to the State's employees. The agencies make contributions to the SSIF to cover projected losses and net expenses. The SSIF also maintains a partial reserve to reduce the likelihood of additional required contributions due to adverse loss experience. The liability represents results from an annual actuarial study for claims reported but unpaid plus an estimate for claims incurred but not reported.

The remaining risk management activities of the State are included in the State General Fund. The State has not encountered difficulty in resolving past losses by using resources available at the time the loss occurred.

The Tort Claims Fund (TCF) provides payment of compromises, settlements, and final judgments arising from claims against the State or an employee of the State under the Kansas Tort Claims Act, and costs of defending the State or an employee. When the balance in the TCF is insufficient to pay a claim, a transfer is made from the State General Fund to the TCF. The maximum claim liability allowed under The Kansas Tort Claims Act is \$500,000 per occurrence or accident. At June 30, 2016, there were no material claims incurred but unpaid.

The statewide policy has a limit of \$100,000,000 per occurrence for most buildings except flood and earthquake, which are applied as annual aggregates separately to each peril, and a deductible of \$5,000,000 per occurrence for most buildings. For the four buildings in the Capitol Complex, the limit is \$200,000,000 per occurrence. The self-insurance program for personal and real estate property loss represents an estimate of amounts to be paid from currently expendable available financial resources.

Liabilities of the funds are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR's). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of payments), and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims.



State of Kansas  
**Notes to the Financial Statements**  
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The following table presents the changes in claims liability balances (both current and non-current) during the current fiscal year ended June 30, 2016 (expressed in thousands):

	Claims Liability Beginning balance	Plus: Current Year Claims and Changes Estimate	Less: Claim Payments	Claims Liability Ending balance	Non- Current - Liability	Current Liability
<b>Current Fiscal Year</b>						
State Self-Insurance Fund	\$ 53,221	\$ 19,251	\$ (18,427)	\$ 54,045	\$ 41,742	\$ 12,303
Health and Dental Care Claims	28,503	416,911	(416,979)	28,435	67	28,368
Post Employment Health and Dental Claims	2,391	28,041	(28,926)	1,506	2	1,504
Total	<u>\$ 84,115</u>	<u>\$464,203</u>	<u>\$ (464,332)</u>	<u>\$ 83,986</u>	<u>\$ 41,811</u>	<u>\$ 42,175</u>
<b>Prior Fiscal Year</b>						
State Self-Insurance Fund	\$ 55,556	\$ 15,135	\$ (17,470)	\$ 53,221	\$ 40,514	\$ 12,707
Health and Dental Care Claims	28,599	397,293	(397,389)	28,503	54	28,449
Post Employment Health and Dental Claims	1,716	37,654	(36,979)	2,391	3	2,388
Total	<u>\$ 85,871</u>	<u>\$450,082</u>	<u>\$ (451,838)</u>	<u>\$ 84,115</u>	<u>\$ 40,571</u>	<u>\$ 43,544</u>

**Notes:**

1. Claims liability ending balance is based on Actuary IBNR modeling estimates using claims lag data through June 30, 2016.
2. Future projections of claims liabilities are only estimates. All estimates, based upon the information available at a point in time to unforeseen and random events. Therefore, any projection must be interpreted as having a likely range of variability from the estimate.
3. IBNR includes 3% expense load and 3.5% margin.
4. Non-current liability represents the remaining IBNR reserve for the prior fiscal year.

### B. Contingencies and Commitments

#### *Litigation*

The State is a defendant in numerous legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Such litigation includes, but is not limited to, claims asserted against the State arising from alleged torts, alleged breaches of contracts, condemnation proceedings and other alleged violations of State and Federal laws. Known claims, asserted and unasserted, have been evaluated for the likelihood of an unfavorable outcome and estimates have been made regarding the amount or range of potential loss in the event of an unfavorable outcome. After review, it is the State's opinion that its ultimate liability in these cases, if any, is not expected to have a material adverse effect on the financial position of the State, except for cases below.

In *Gannon, et. al. v. State of Kansas*, 32 individual plaintiffs and four school districts have brought various legal challenges to the school finance formula. In their suit, the plaintiffs claim that the State has unconstitutionally made cuts in funding for public education in contravention of Article 6 of the Kansas Constitution. Plaintiffs also contend that certain components of the school finance formula are unconstitutional. In their suit, plaintiffs sought injunctive relief to prohibit implementation of an unconstitutional funding formula, money damages, costs, reasonable attorneys' fees, and other equitable relief. The case was tried in the summer of 2012 before a three-judge panel and on January 11, 2013 the panel ruled in favor of the plaintiffs. As relief, the panel ordered a specific and substantial increase in the base state aid per pupil going forward, and also ordered a substantial increase in the State's funding of school district capital outlay funds. In response, the State passed and the Governor signed into law, an appropriation of \$25.2 million in capital outlay equalization funding and an additional \$109.3 million of local option budget equalization funding for Fiscal Year 2015. The matter is presently before the three-judge panel on remand

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## IV. Other Information

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and on June 11, 2014 the panel stated that it would not take further action on the equalization issue. On December 30, 2014, the panel ruled that the present school finance system is not reasonably calculated to have all Kansas public education students meet or exceed standards. On March 25, 2015, the Governor signed into law House Substitute for Senate Bill 7 that created a two-year “block grant” system of financing K-12 public education while the Legislature devises a new school finance formula. On March 26, 2015, the plaintiffs filed a Motion of Declaratory Judgment and Injunctive Relief seeking that the school finance block grant bill is unconstitutional. The panel ruled that Senate Bill 7 provided constitutionally adequate funding reasonably calculated to have every student meet or exceed standards. After appeal, briefing and oral arguments to the Kansas Supreme Court, the Court held on February 10, 2016, the Supreme Court issued an Order finding that the district court panel correctly held the State has not carried its burden to show it has cured supplemental general state aid's unconstitutional inequities that were affirmed to exist. In accordance with the directive of the Court, the Kansas legislature attempted to fix the equity issues identified by the Court in its February 10, 2016 Order, but after additional briefing and oral arguments, the Court again, on May 27, 2016, found that the State has not carried its burden to show it has cured the unconstitutional inequities in the local option budget and supplemental general state aid that were affirmed to exist. On June 24, 2016, the legislature passed Senate Substitute for House Bill 2001 in an effort to bring equity funding into constitutional compliance. The bill was signed by the Governor on June 27, 2016 with an effective date of July 1, 2016. After the parties stipulated that the new law satisfied the Court's equity concerns, the Court entered an Order on June 28, 2016, determining that the legislature has currently satisfied the Court's earlier rulings in regard to equity and that no judicial remedy was necessary. After the equity component of the litigation had been resolved, the Court ordered that any supplemental briefing by the parties on adequacy be completed by August 12, 2016. Oral argument has been scheduled for September 21, 2016. A decision from the Court on the adequacy of Kansas K-12 school finance is anticipated sometime before the beginning of 2017. The State is vigorously defending the case on appeal and is uncertain of the chance of loss. The precise range of potential *prospective* monetary obligations is not capable of quantification at this point, but if the plaintiffs are successful the amount could well be in the hundreds of millions of dollars in additional, annual future school funding and could have a material adverse impact on the State's budget, financial position, cash flow and fund balances. It remains possible that intervening legislation will be found to have altered the school finance law in such a fashion that the pending legal proceedings are moot, but the chance of that happening is too early to assess.

*Bicknell v. KDOR*, This is an individual income tax case pending before the Board of Tax Appeals and possibly the Kansas Supreme Court in which the taxpayer is seeking to overturn a decision of the Board of Tax Appeals in which the Board upheld a decision of the Department of Revenue that the taxpayer was a resident of the State of Kansas for tax years 2005 and 2006 and therefore subject to Kansas individual income tax. The Department had assessed the taxpayer after it determined that the taxpayer was a resident of Kansas for those years, which were the two tax years involved in that particular audit period. The taxpayer claimed that he was a resident of Florida and not Kansas during that audit period, and therefore not subject to Kansas individual income tax. The Kansas Court of Appeals vacated the decision of the Board of Tax Appeals, and remanded the case back to the Board for further findings. At this point, the Department then filed a Petition for Review with the Kansas Supreme Court, and the taxpayer has filed a Cross Petition for Review. The taxpayer has filed a response to the Department's Petition and the Department has filed a response to the taxpayer's Petition. Both parties have also filed a reply to the other party's response. The Kansas Supreme Court will decide whether to grant either or both parties' Petition for Review. If the Supreme Court decides not to grant either or both Petitions, the case will go back to the Board of Tax Appeals for further findings. Following that, the case will then most likely proceed back to the Kansas Court of Appeals and very possibly the Kansas Supreme Court. Following the decision by the Board of Tax Appeals, the taxpayer had remitted \$48.5 million in tax, interest and penalty. If the taxpayer ultimately prevails in this matter, he would be entitled to a refund of that amount. In the view of the Kansas Department of Revenue, the taxpayer's chances of success are small.

The Department of Administration has reached an agreement with Health and Human Services for disallowed costs regarding the State Health Care Benefits Program in the Cafeteria Benefits Fund; State Workers Compensation Self-Insurance Fund; and the State leave Payment Reserve Fund. The original agreement was for \$18.8 million with the first payment made during fiscal year 2014. The State has a remaining liability for \$9.5 million. Payments will be made annually over the next three years.

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By a letter of determination dated June 15, 2016, the U.S. Department of Health and Human Services, Administration for Children and Families (USHHS) requested the return of the federal share of cash charged to the Kansas Department of Children and Family Services during Fiscal Years 2003 – 2010, by the Kansas Department of Administration for debt setoff collection assistance fees. The USHHS made the request under a determination related to an audit report issued by the USHHS in April 2013. The USHHS determined that state governments are not allowed to generate a profit on federally funded awards as A-87 states in 225.20, "Provision for profit or other increment above cost is outside the scope of this part." The State has submitted a notice of appeal regarding this issue. The State has recorded a liability of \$11.9 million consisting of the federal share in the amount of \$10.6 million plus \$1.3 million in imputed interest calculated to July 2016.

The Department for Children and Families (DCF) has undergone a review of Title IV-E fund claims for the State's Foster Care program related to disallowed costs related to maintenance expenses. The review resulted in findings showing that DCF had over claimed certain maintenance expenditures. In 2015, the review was not completed and the State estimated and booked a liability of \$17.0 million. In 2016, the review was finalized and the liability was reduced to \$5.1 million. This will reduce the amount of federal funds that DCF will receive and require more state general fund resources for the Foster Care program.

*Enbridge Pipeline v. KDOR*, Enbridge Pipeline claims a Kansas compensating use tax refund of \$1 million for pipeline purchases temporarily stored in Kansas for use outside of Kansas. The Department disallowed the claim because Enbridge failed to submit any supporting documentation that the pipe was temporarily stored in Kansas for existing jobs located outside of Kansas as opposed to stored in Kansas as taxable inventory. This case is pending at the Kansas State Board of Tax Appeals. It is reasonably possible that the taxpayer will prevail in this tax refund matter.

*Westar Energy v. KDOR*, Westar Energy filed several retailers' sales tax refund claims totaling in excess of \$3 million for manufacturing machinery and equipment used at electric substations. The Department denied the claims because the equipment is primarily used to convey power, not manufacture power. The claim is pending at the administrative appeals level. It is reasonably possible that the taxpayer will prevail in this tax refund matter.

*Lab One, Inc. v. KDOR*, Lab One, Inc. has filed a series of refund claims totaling \$1.2 million for Kansas retailers' sales tax allegedly paid in error on an assortment of solvents, reagents, and medical testing kits used in its laboratory for medical testing purposes. Upon reviewing the claims filed, the Department noted that intermixed with the claimed exempt items were non-exempt items such as cleaning solutions, equipment coolant, oil used in equipment, and other non-exempt items. Additionally, the Department noted that there were duplicate claims tiled for the same item or items (both on the spread sheets submitted by taxpayer and also invoices sent in duplicate and in some cases triplicate to substantiate the same claim). Finally, a number of invoices submitted by taxpayer have no Kansas retailers' sales tax billed to it, and therefore a refund is unwarranted. This appeal is in its initial stages at the administrative appeals level and numerous documents are currently being exchanged between the Department and the taxpayer. It is reasonably possible that the taxpayer will prevail in this tax refund matter.

### ***Unclaimed Property***

Unclaimed property is remitted to the General Fund where it can be used by the State until it is claimed. The State Treasurer has the authority to take possession of specified types of abandoned personal property and become custodian in perpetuity which preserves the right of the original owner or other persons to claim the property. The Unclaimed Property Division of the Kansas State Treasurer's office seeks to return various forms of unclaimed property to the rightful owner or heirs. In the current year, a liability in the amount of \$156 million has been recorded for estimated claims.

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## IV. Other Information

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### ***Federal Financial Assistance***

The State receives significant financial assistance from the Federal government in the form of grants and entitlements, including several non-cash programs. The receipt of grants is generally dependent upon compliance with terms and conditions of the grant agreements and applicable Federal regulations. Grants are subject to the Federal Single Audit Act or to financial and compliance audits by grantor agencies. Disallowances by Federal officials as a result of these audits may become liabilities of the State.

### **C. Pollution Remediation**

The Governmental Accounting Standards Board Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations" requires the State to record any known pollution remediation for which it is legally responsible. When the State has not been able to reasonably estimate the liability amount, a disclosure has been made.

### ***Oil Well Plugging***

Legislation requires the Kansas Corporation Commission (KCC) to prepare and maintain an inventory of all abandoned wells with a special focus on wells which, (1) the State has assumed the plugging liability because of the lack of a potentially responsible party; and (2) pose either an ongoing or potential threat to the environment. The number of known wells needing to be plugged in the future is expected to increase as more wells are discovered in remote areas and also as KCC develops a more refined well inventory process. The fiscal year 2016 pollution remediation liability is estimated at \$40.47 million. No recoveries for these well pluggings are expected.

### ***Superfund Program Obligations***

The Kansas Department of Health and Environment (KDHE) is contractually obligated to perform or fund remediation within the Superfund Program. A number of sites in the State fall within the jurisdiction of the U.S. Environmental Protection Agency (EPA) under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), also known as Superfund. These sites have been scored and placed on the National Priority List (NPL). The NPL is the listing of the most severely contaminated sites in the nation that have been identified for possible long-term cleanup.

The NPL sites are addressed through a lengthy process, generally under the direct supervision of the EPA with active State participation. Some of these sites are "orphan" sites, that is, there is not an identified responsible party. Remedial activities at these orphan sites are funded with Federal Superfund monies. Two of the CERCLA requirements have significant impact on the State financial obligations. One is the ten percent State cost share of remedial design and remedial action at Superfund financed sites. The other is the requirement that the State assume responsibility and financial burden for the long term operation and maintenance (O&M) of the site.

After the formal process to list a site on the NPL is completed, the EPA develops a design for remediation of the site that provides the proposed costs of implementation of the remedial action including the long term O&M for the site. The State is required to sign a contract with EPA obligating the State to provide the ten percent match and perform the long term O&M for the site. While the actual schedule is somewhat hard to anticipate, a cost schedule is projected with the proposed cost share and O&M estimates. The State has estimated \$7.83 million in liabilities for the Superfund Program over the next 10 years for known pending remedial action and O&M. In addition, the State has approximately \$0.51 million in state match liabilities associated with existing contracts for expenses incurred prior to state fiscal year 2017.

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## IV. Other Information

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### *State Water Plan Orphan Sites Program*

KDHE also operates an orphan sites program to perform remedial activities at sites where a responsible party cannot be identified and other State or Federal programs are not available to fund those remedial activities. There are approximately 87 contaminated sites across the State included in this orphan sites program. Due to limited funding, KDHE has prioritized the sites that pose the greatest threat to the public health and/or the environment. Historically, the State Water Plan (SWP) – Contamination Remediation fund was the primary source of funding allocated to address environmental contamination issues at these orphaned sites. Kansas passed legislation in 2015 that created the Environmental Stewardship Fund (ESF). The ESF will also be used to address sites in the Orphan Sites Program. While most of these sites are not Superfund-caliber sites that could be worked by the EPA, many still pose a substantial risk to the water supplies and/or public health of many Kansas communities.

The State Water Plan and Environmental Stewardship Fund will be the primary source of funding to provide the 10% State cost share and perform O&M requirements for NPL sites as well as to address environmental contamination issues identified at orphan sites. The annual budget for the SWP fund contains funding for both agency costs, payments to EPA for state cost share and contractual cost. It is difficult to predict what the future costs for the State Water Plan will be, however, the State has recorded a liability for \$0.69 million which is the amount known to be budgeted in fiscal year 2017 for this program.

### *State Fee Funded Programs*

KDHE obtains State and Federal funds for regulatory programs to address corrective action from specific types of pollution sources. While some of these programs provide funding to reimburse responsible parties for their approved cost of corrective action, the State is only obligated to reimburse costs if prior approval is obtained and the State program has funding available.

The Storage Tank Act establishes two separate Trust Funds to assist owners and operators of storage tanks with the cost of remedial actions. Both funds are designed to provide financial assistance to owners and operators of facilities where contamination from petroleum storage tanks has occurred. The Trust Funds are financed from a \$.01 fee placed on each gallon of petroleum (except aviation fuel) product manufactured in or imported into the State. The funds will be abolished on July 1, 2024, by the sunset provision unless reenacted by the Legislature.

To date, 2,265 sites have been approved to receive reimbursement of approved costs under the Underground Storage Tank (UST) fund identified in K.S.A. 65-34,114 if funding is available.

In addition to providing reimbursements of approved cost, the statute contains a provision that allows KDHE's secretary to take whatever emergency action is necessary or appropriate to assure that the public health or safety is not threatened whenever there is a release or potential release from an underground petroleum storage tank and to permit the secretary to take corrective action where the release or potential release presents an actual or potential threat to human health or the environment, if the owner or operator has not been identified or is unable or unwilling to perform corrective action, including but not limited to providing for alternative water supplies.

The annual budget for the UST fund contains funding for both agency costs and contractual cost which include funding for reimbursements of applicants and the direct payment of contractors who perform both emergency response activities and corrective actions at the sites. The exact amount of future costs is unknown. The State has recorded a liability of \$11.13 million for UST fund activities which represents the amount budgeted for fiscal year 2017.

A similar reimbursement fund has been created for Aboveground Petroleum Storage Tanks (AST). To date, 199 sites have been approved to receive reimbursement of approved costs under the AST fund identified in K.S.A. 65-34, 129.

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In addition to providing reimbursements of approved cost, the statute contains a provision that allows KDHE's secretary to take whatever emergency action is necessary or appropriate to assure that the public health or safety is not threatened whenever there is a release or potential release from an above ground petroleum storage tank and to permit the secretary to take corrective action where the release or potential release presents an actual or potential threat to human health or the environment, if the owner or operator has not been identified or is unable or unwilling to perform corrective action, including but not limited to providing for alternative water supplies.

The annual budget for the AST fund contains funding for both agency costs and contractual cost which include funding for reimbursements of applicants and the direct payment of contractors who perform both emergency response activities and corrective actions at the sites. The exact amount of future costs is unknown. The State has recorded a liability of \$1.79 million for AST fund activities which represents the amount budgeted for fiscal year 2017.

### ***Kansas Drycleaner Environmental Response Act***

The Kansas Drycleaner Environmental Response Act established a trust fund described in K.S.A. 65-34,146. The Kansas Dry Cleaning Trust Fund (KDTF) is a State-led corrective action program to provide funding for implementation of the Kansas Drycleaner Environmental Response Act. Money in the KDTF is expended for direct costs for administration and enforcement of the Kansas Drycleaner Environmental Response Act and corrective action at contaminated retail dry cleaning facilities.

There are currently 162 sites approved for corrective action under the KDTF. The corrective action at these sites is performed based on a site prioritization system and the agency is not liable for costs of corrective action in excess of the \$5 million cap at each site or in excess of the funding available to the program. The annual budget for the KDTF contains funding for agency and contractual cost. An estimate of future costs is unknown, however, the State has recorded a liability of \$0.63 million for the Drycleaner Environmental Response Program. This amount represents the amount currently budgeted for future corrective action.

### ***Kansas State University – Old Chemical Waste Landfill***

A chemical waste landfill was created with approval of the U.S. Atomic Energy Commission and utilized from the mid-1960's to 1987 as a burying ground for tritium, carbon-14 and other short-lived radioactive elements. The university also disposed of some chemicals at the site from 1979 to 1983. The Kansas Board of Regents approved the plan to clean up the site, which commenced in FY2011 and was completed as of July 2012, with a project cost of approximately \$7 million. Monitoring groundwater, sampling and reporting will continue as mandated by KDHE.

### ***Kansas State University – Ashland Bottoms***

Seven monitoring wells have been installed and a quarterly sampling schedule is in effect related to the removal of diesel and gasoline underground storage tanks at the Ashland Bottoms Agronomy farm in Riley County. All remediation costs are covered by the State through the KDHE Petroleum Storage Tank Trust Fund, less a \$4,000 deductible which has been paid by the University.

## **D. Other Post Employment Benefits**

*Description.* Kansas statute provides that postemployment healthcare benefits be extended to retired employees who have met age and/or service eligibility requirements. The health insurance benefit generally provides the same coverage for retirees and their dependents as for active employees and their dependents. The health insurance benefit plan is a single employer defined benefit plan administered by Kansas Health Care Finance. The benefit is available for selection at retirement and is extended to retirees and their dependents for life. Non-Medicare participants are subsidized by the State, thus resulting in a liability to the State. The accounting for the health

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insurance for retirees is included in the State's Self-Insurance Health fund, with the subsidy provided from the Self-Insurance Health fund. Beginning January 1, 2017, non-medicare eligible retirees health insurance will no longer be subsidized per the Kansas Health Care Commission decision in June 2016.

**Funding Policy.** The State provides health insurance benefits to retirees and their dependents in accordance with Kansas law (K.S.A. 75-6511). Kansas statute, which may be amended by the state legislature, established that participating retirees contribute to the employee group health fund benefits plan, including administrative costs. The State does not pay retiree benefits directly; they are paid implicitly over time through employer subsidization of active premiums that would be lower if retirees were not part of the experience group. In fiscal year 2016, non-Medicare retired plan members receiving benefits contributed \$12.7 million to the plan and the State contributed \$8.7 million to the plan. Although typically the plan only maintains an implicit subsidy liability, the Voluntary Retiree Incentive Program (VRIP) and the Limited Retirement Health Care Bridge Program (LRHCBR) has created an explicit subsidy of \$1.9 million in fiscal year 2016. The remaining \$6.8 million (of the total \$8.7 million) is paid implicitly through rate subsidization."

**Annual OPEB Cost and Net OPEB Obligation.** The State's annual Other Post Employment Benefits (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of not to exceed thirty years. The following table presents the components of the State's annual OPEB cost for the year, the amounts contributed to the plan, and changes in the State's net OPEB obligation (expressed in thousands):

	Primary Government	Component Units	Pension Trust	Total
Amortization of UAAL	\$ 6,611	\$ 2,625	\$ 21	\$ 9,257
Normal cost (with interest)	0	0	0	0
Interest on amortized liability	0	0	0	0
Annual required contribution	6,611	2,625	21	9,257
Interest on net OPEB obligation	2,273	2,767	13	5,053
Adjustment to ARC	(56,220)	(71,717)	(315)	(128,252)
Annual OPEB cost	(47,336)	(66,325)	(281)	(113,942)
Net employer contributions	(8,300)	(2,874)	(34)	(11,208)
Net OPEB obligation July 1, 2015	59,928	71,015	323	131,266
Net OPEB obligation June 30, 2016	\$ 4,292	\$ 1,816	\$ 8	\$ 6,116

**Schedule of Employer Contributions (for fiscal year ended)**  
(expressed in thousands)

Fiscal Year Ended	Annual OPEB Cost	Net Employer Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2014	\$ 25,869	\$ 14,530	56.17%	\$ 124,345
6/30/2015	22,764	15,843	69.60%	131,266
6/30/2016	(113,942)	11,206	-9.83%	6,116

**Funded Status and Funding Progress.** As of June 30, 2016, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$5.7 million. The State's policy is to fund the benefits on a pay as you go basis, which is paid implicitly through rate subsidization, resulting in an unfunded actuarial accrued liability (UAAL) of \$5.7 million. The covered payroll (annual payroll of active employees covered by the plan) was \$2.1 billion, and the ratio of the UAAL to the covered payroll was .26 percent.

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Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The valuation includes, for example, assumptions about future employment, mortality and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of employer are subject to continual revision as actual results are compared with the past expectations and new estimates are made about the future. The schedule of funding progress will present in time, multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liabilities for benefits.

***Actuarial Methods and Assumptions.*** Projections of benefits for reporting purposes are based on the substantive plan and include the types of benefits provided at the time of valuation and the historical pattern of sharing of benefit cost between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2016 actuarial valuation, the entry age normal, level dollar method was applied. The actuarial assumptions included a 3.85 percent investment rate of return, which is a blended rate of the expected long-term investment returns on the State's pooled funds and investments. Since the Plan is becoming employee-pay-all in 2017, the trend rates for Medical, Prescription Drug, and Administrative costs was assumed to be -100% in 2017 and 0% thereafter. As the subsidy ends December 31, 2016, the amortization is set equal to the benefit payments for the period.

### **Primary Government**

In addition to the pension benefits described in the Employee Retirement Systems and Pension Plans note, the State provided post-employment health care benefits to retirees who elect the Kansas medical option. This subsidy was ended for post-employment retirees as of December 31, 2006. Retirees that elected the health insurance that the State provides now pays 100 percent of the premium. The monthly amount of premium cost per individual ranges from \$471.02 to \$708.88 for early retirees. Early retirees are defined as those retirees not yet Medicare eligible. The employer contribution, according to GASB Statement No. 45, is the aggregate amount of the subsidies, which is calculated into the employer contribution for active employees.

	Eligible State Retiree Participants	Eligible State Retiree and Family Participants	Enabling Legislation
Kansas Major Medical Post-Employment Benefits	7,252	11,156	K.S.A. 75-6504

The State funds post-employment health care benefits on a pay-as-you-go basis as part of the overall retirement benefit ending on June 30, 2016. No separation of pension obligation and health insurance obligation is made and assets are not allocated between obligations.

### **E. Employee Retirement Systems and Pension Plans**

#### ***Special Funding Situation***

The employer contributions for non-public school district schools, as defined in K.S.A. 74-4931 (2) and (3), are funded by the State on behalf of these employers. Therefore these employers, area vocational-technical schools and community junior colleges, are considered to be in a special funding situation as defined by GASB 68. The State is treated as a nonemployer contributing entity in the Kansas Public Employees Retirement system (KPERS). As a result, the State reports a liability, deferred outflows of resources and deferred inflows of resources, and expenses as a result of its statutory requirement to contribute to KPERS. Amounts disclosed below for "Nonemployer" are associated with this special funding situation.



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### *General Information about the Pension Plan*

*Plan description:* The State participates in KPERS, a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et. seq. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. KPERS' financial statements are included in its Comprehensive Annual Financial Report which can be found on the KPERS website at <http://www.kpers.org/annualreport2015.pdf> or by writing to KPERS (611 South Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

*Benefits provided.* KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Benefits are established by statute and may only be changed by the General Assembly. Member employees (except Police and Firemen) with ten or more years of credited service, may retire as early as age 55 (Police and Firemen may be age 50 with 20 years of credited service), with an actuarially reduced monthly benefit. Normal retirement is at age 65, age 62 with ten years of credited service, or whenever an employee's combined age and years of credited service equal 85 "points" (Police and Firemen's normal retirement ages are age 60 with 15 years of credited service, age 55 with 20 years, age 50 with 25 years, or any age with 36 years of service).

Monthly retirement benefits are based on a statutory formula that includes final average salary and years of service. When ending employment, member employees may withdraw their contributions from their individual accounts, including interest. Member employees who withdraw their accumulated contributions lose all rights and privileges of membership. The accumulated contributions and interest are deposited into and disbursed from the membership accumulated reserve fund as established by K.S.A. 74-4922.

Member employees chose one of seven payment options for their monthly retirement benefits. At retirement a member employee may receive a lump-sum payment of up to 50% of the actuarial present value of the member employee's lifetime benefit. His or her monthly retirement benefit is then permanently reduced based on the amount of the lump-sum. Benefit increases, including ad hoc post-retirement benefit increases, must be passed into law by the Kansas Legislature. Benefit increases are under the authority of the Legislature and the Governor of the State of Kansas.

The 2012 Legislature made changes affecting new hires, current member employees and employers. A new KPERS 3 cash balance retirement plan for new hires starting January 1, 2015 was created. Normal retirement age for KPERS 3 is 65 with five years of service or 60 years with 30 years of service. Early retirement is available at age 55 with ten years of service, with a reduced benefit. Monthly benefit options are an annuity benefit based on the account balance at retirement.

The retirement benefits are disbursed from the retirement benefit payment reserve fund as established by K.S.A. 74-4922.

*Contributions.* K.S.A. 74-4919 and K.S.A. 74-49,210 establish the KPERS member-employee contributions rates. KPERS has multiple benefit structures and contribution rates depending on whether the employee is a KPERS 1, KPERS 2 or KPERS 3 member. KPERS 1 members are active and contributing members hired before July 1, 2009. KPERS 2 members were first employed in a covered position on or after July 1, 2009, and KPERS 3 members were first employed in a covered position on or after January 1, 2015. Effective January 1, 2015, Kansas law establishes the KPERS member-employee contribution rate at 6% of covered salary for KPERS 1, KPERS 2 and KPERS 3 members. Member employee's contributions are withheld by their employer and paid to KPERS according to the provisions of Section 414(h) of the Internal Revenue Code.

State law provides that the employer contribution rates for KPERS 1, KPERS 2 and KPERS 3 be determined based on the results of each annual actuarial valuation. KPERS is funded on an actuarial reserve basis. Kansas law sets a

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limitation on annual increases in the employer contribution rates. The actuarially determined employer contribution rate (not including the 0.85% contribution rate for the Death and Disability Program) and the statutory contribution rates for Fiscal Year 2015 are as follows:

	<u>Actuarial employer rate</u>	<u>Statutory employer capped rate</u>
State employees	10.80%	11.27 / 8.65%
School employees	15.41	11.27 / 8.65
State/School employees (combined rate)	14.34	11.27 / 8.65
Local government employees	9.48	9.48
Police and Firemen	21.36	21.36
Judges	22.59	22.59

The actuarially determined employer contribution rate (not including the 1.00% contribution rate for the Death and Disability Program) and the statutory contribution rates for Fiscal Year 2016 are as follows:

	<u>Actuarial employer rate</u>	<u>Statutory employer capped rate</u>
State employees	11.44%	10.91%
School employees	16.00	10.91
State/School employees (combined rate)	14.95	10.91
Local government employees	9.18	9.18
Police and Firemen	20.42	20.42
Judges	23.98	23.98

Contributions to the pension plan from the State were as follows:

	<u>Primary Government</u>		<u>Component</u>
Year Ended June 30:	<u>Employer</u>	<u>Nonemployer</u>	<u>Units</u>
2016	\$ 222,790	\$ 165,443	\$ 19,062
2015	94,083	45,182	18,256

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

At June 30, 2016, the State reported a liability for its proportionate share of the KPERS' collective net pension liability as follows:

	<u>Primary Government</u>		<u>Component</u>
	<u>Employer</u>	<u>Nonemployer</u>	<u>Units</u>
Net pension liability	\$ 1,364,406	\$ 720,205	\$ 268,020

The collective net pension liability was measured by KPERS as of June 30, 2015, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of December 31, 2014, which was rolled forward to June 30, 2015. The State's proportion of the collective net pension liability was based on the ratio of the State's actual contributions to KPERS, relative to the total employer and nonemployer contributions of the respective subgroup within KPERS for the fiscal year ended June 30, 2015. The contributions

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used exclude contributions made for prior service, excess benefits and irregular payments. At June 30, 2015, the State's proportion and decrease from its proportion measured as of June 30, 2014 were as follows:

	Proportion as of June 30, 2015	Increase (decrease) in proportion from June 30, 2014
<b>Primary Government</b>		
<b>Employer:</b>		
State/School group	18.702%	0.379%
KP&F	7.446	(0.005)
Judges	100.000	0.000
<b>Nonemployer</b>	10.791	0.203
<b>Component Units</b>		
State/School group	3.516	0.109
KP&F	1.345	0.130
Local group	1.123	(0.046)

For the year ended June 30, 2016, The State recognized pension expense as follows:

	<u>Primary Government</u>		<u>Component</u>
	<u>Employer</u>	<u>Nonemployer</u>	<u>Units</u>
Pension expense	\$ 89,633	\$ 49,777	\$ 17,205

At June 30, 2016, the State reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Primary Government					
	Employer		Nonemployer		Component Units	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 494	\$ 43,327	\$ -	\$ 21,583	\$ 88	\$ 7,880
Net difference between projected and actual earnings on pension plan investments	-	36,752	-	18,762	-	7,227
Changes in proportionate share	22,834	31,629	33,650	25,002	9,034	10,907
Changes in assumptions	-	6,163	-	1,603	-	845
Contributions subsequent to measurement date	222,790	-	165,443	-	19,062	-
Total	\$ 246,118	\$ 117,871	\$ 199,093	\$ 66,950	\$ 28,184	\$ 26,859

The \$407,295 reported as deferred outflows of resources related to pensions resulting from the State contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

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Year ended June 30:	Primary Government		Component
	Employer	Nonemployer	Units
2017	\$ (34,357)	\$ (13,497)	\$ (6,643)
2018	(34,358)	(13,497)	(6,643)
2019	(34,358)	(13,497)	(6,643)
2020	9,024	7,021	1,769
2021	(494)	170	423
	<u>\$ (94,543)</u>	<u>\$ (33,300)</u>	<u>\$ (17,737)</u>

*Actuarial assumptions.* The total pension liability for KPERS in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Price inflation	3.00 percent
Wage inflation	4.00 percent
Salary increases, including wage increases	4.00 to 16.00 percent, including inflation
Long-term rate of return net of investment expense, and including price inflation	8.00 percent

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial experience study conducted for the three year period beginning December 31, 2012.

Changes in actuarial assumptions from the December 31, 2013 valuation include a change in the maximum salary increase from 12.50% to 16.00%.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocations as of June 30, 2015 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate
Global equity	47%	6.30%
Fixed income	13	0.80
Yield driven	8	4.20
Real return	11	1.70
Real estate	11	5.40
Alternatives	8	9.40
Short-term investments	2	(.50)
Total	<u>100%</u>	

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**Discount rate.** The discount rate used by KPERS to measure the total pension liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the contractually required rate. The State/School employers do not necessarily contribute the full actuarial determined rate. Based on legislation passed in 1993, the employer contribution rates certified by the KPERS' Board of Trustees for this group may not increase by more than the statutory cap. The expected KPERS employer statutory contribution was modeled for future years, assuming all actuarial assumptions are met in the future. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the State's proportionate share of the collective net pension liability to changes in the discount rate.** The following presents the State's proportionate share of the collective net pension liability calculated using the discount rate of 8.00%, as well as what the State's proportionate share of the collective net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

	<b>1% Decrease (7.00%)</b>	<b>Current Discount Rate (8.00%)</b>	<b>1% Increase (9.00%)</b>
<b>Primary Government:</b>			
Employer's proportionate share of the collective net pension liability	\$ 1,775,423	\$ 1,364,406	\$ 1,015,057
Nonemployer's proportionate share of the collective net pension liability	927,130	720,205	544,447
<b>Component Unit:</b>			
Component Unit's proportionate share of the collective net pension liability	348,588	268,020	199,618

**Pension plan fiduciary net position.** Detailed information about the pension plan's fiduciary net position is available in the separately issued KPERS financial report.

**Subsequent events.** Under the budgetary allotment process for the State of Kansas, the Kansas governor has authority to reduce or defer the approved budget for purposes of balancing the budget. For the State's fiscal year ended June 30, 2016, approximately \$99 million, including accrued interest through June 30, 2016, in State funded employer contributions to the State/School group were deferred. Senate Bill 249 provided that the delayed contributions would be repaid in full, with interest at 8% by June 30, 2018.

During the 2015 state legislative session, Senate Bill 228 was passed authorizing the issuance of one or more series of revenue bonds to provide deposits to KPERS in a total amount not to exceed \$1 billion. The purpose of such bond issuance would be for financing a portion of the unfunded actuarial pension liability of KPERS, which would also have an effect on the collective net pension liability. On August 20, 2015, the State issued \$1.01 billion of bonds in accordance with this bill. Approximately 14.34% or \$143.4 million was applied by KPERS to the unfunded liabilities of the State Group and approximately 85.66% or \$856.6 million was applied by KPERS to the unfunded liabilities of the School Group. The transaction has been reflected as a deferred outflow in the statement of net position and an expense under education in the statement of activities.

### **Other Retirement Plans**

Faculty and other eligible unclassified professional employees of the Board of Regents (Regents) office and State universities must participate in the Regents' mandatory retirement plan. Authorized by statute, this 403(b) defined

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contribution plan is funded through contributions by the employees and the employer (the Regents office or the State University). Employees are required to serve a one-year waiting period before becoming eligible to participate in the plan, but participation can begin earlier if certain waiver provisions are met. The contributions and earnings are fully vested with the first contribution.

Employees participating in the Regents' mandatory retirement plan are required to contribute 5.5 percent of their salary, up to the maximum dollar amount permitted by the Internal Revenue Code. During fiscal year 2016, employees contributed approximately \$46.9 million. During fiscal year 2016, the 8.5 percent employer contribution totaled approximately \$73.3 million, representing covered wages of approximately \$867 million. These employees, along with employees who participate in the KPERS retirement program, may also elect to participate, up to the maximum dollar amount permitted by the Internal Revenue Code, in the Regents' voluntary retirement plan, which allows the member to purchase a 403(b) contract to supplement the mandatory retirement plan. All employees, as well as student employees, also may elect to participate, up to the maximum dollar amount permitted by the Internal Revenue Code, in the State's 457 deferred compensation program, to supplement their retirement savings.

The retirement plan for the School for the Blind and the School for the Deaf are also covered by KPERS in the 401(a) defined benefit plan. The KPERS employee rate is 6 percent for Tier I, Tier II and III members. The Employer rate is 11.91 percent (10.91 percent employer and 1.00 percent death & disability). The State declared a moratorium on employer distribution that went into effect for the period of 3/25/2016 through 6/30/2016 for all three Tiers members.

### F. Related Party Transactions

The Kansas Legislature annually appropriates state general fund dollars to the Regent Institutions comprising the State University System (University of Kansas, including the University of Kansas Medical School, Kansas State University, Wichita State University, Emporia State University, Pittsburg State University, and Fort Hays State University). During FY 2016 expenditures from these appropriations amounted to \$760 million and are recorded within the General fund in the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.

These expenditures, along with a corresponding recognition of revenue, are also reported within the State University System in order to accurately reflect all financial activity of the Combining Statement of Activities - Component Units.

### G. Subsequent Events

#### *Bonds and Notes*

##### Short-term Debt

*Certificate of Indebtedness* – On July 1, 2016, the Pooled Money Investment Board (PMIB) issued a \$900 million Certificate of Indebtedness per K.S.A. 75-3725a. See Section III-H, Short-term Obligations, for additional information on issuance of a Certificate of Indebtedness.

*Accrued Receivables for Children's Initiatives Fund* – In July 2016, receivables were posted to the State Treasurer's receivables for the Children's Initiatives Fund in the amount of \$21 million per Senate Bill No. 112, Section 81, Session of 2015. See Section III-H, Short-term Obligations, for additional information.

*Accrued Receivables for Economic Development Initiatives Fund* – In July 2016, receivables were posted to the State Treasurer's receivables for the Economic Development Initiatives Fund in the amount of \$21.3 million per Senate Bill No. 112, Section 81, Session of 2015.

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*Accrued Receivables for Correctional Institutions' Building Fund* – In July 2016, receivables were posted to the State Treasurer's receivables for the Correctional Institutions' Building Fund in the amount of \$4.0 million per Senate Bill No. 112, Section 81, Session of 2015.

*Accrued Receivables for Kansas Endowment for Youth Fund* – In July 2016, receivables were posted to the State Treasurer's receivables for the Kansas Endowment for Youth Fund in the amount of \$.0.2 thousand per Senate Bill No. 112, Section 81, Session of 2015.

*Accrued Receivables for Expanded Lottery Act Revenues Fund* – In July 2016, receivables were posted to the State Treasurer's receivables for the Expanded Lottery Act Revenues Fund in the amount of \$82.1 million per Senate Bill No. 112, Section 81, Session of 2015.

*Accrued Receivables for Ad Valorem Taxes* – In July 2016, receivables were posted to the State Treasurer's receivables in the amount of \$30.6 million for the Kansas Educational Building Fund and \$15.3 million for the State Institutions Building Fund per K.S.A. 87-6b11. See Section III-H, Short-term Obligations, for additional information.

*Revenue Bonds* – In August 2016, the State issued tax exempt Refunding Revenue Bonds KDFA Series 2016H-1 in the amount of \$51,220,000 and Taxable Refunding Revenue Bonds KDFA Series 2016H-2 in the amount of \$280,000. Series 2016H-1 was issued for the purpose of refunding Series 2007M and a portion of Series 2008L. The bonds were issued with coupons ranging from 2% to 5% with final maturity on November 1, 2028. Series 2016H-2 was issued for the purpose of paying the interest on the portion of the Series 2016H-1 used for refunding of Series 2017M. The bonds were issued with a coupon rate of 2% with final maturity on November 1, 2017.

On October 1, 2016, the Kansas Department of Transportation redeemed with cash on hand all outstanding maturities of Kansas Development Finance Authority Series 2006TR.

*Revenue Bonds* – In December 2016, the Kansas Development Finance Authority expects to issue bonds for the benefit of Wichita State University to: i) provide net proceeds in an amount not greater than \$7,200,000 for the purpose of financing a portion of the costs of constructing a parking garage on the Wichita Campus and ii) refunding for economic savings the portion of KDFA Series 2003C bonds that are attributable to Wichita State University which represent all outstanding maturities of 2003C (\$2,305,000).

*Revenue Bonds* - During State fiscal year 2017, the University of Kansas is planning to issue bonds for the Corbin Hall renovation and the Earth, Energy, and Environment Center. The principal capital funding amount for this project is yet to be determined, but may not exceed \$14,500,000 for the Corbin Hall renovation and \$25,000,000 for the Earth, Energy, and Environment Center pursuant to the authorizing statute. Current schedule is to close January 31, 2017.

*Revenue Bonds* - During State fiscal year 2017, the University of Kansas Medical Center is planning to issue bonds for the Health Education Building. The principal capital funding amount for this project is yet to be determined, but may not exceed \$35,000,000 pursuant to the authorizing statute. Current schedule is to close January 31, 2017.

In November 2016, the Kansas Development Finance Authority will defease with cash on hand from loan prepayments from the Kansas Water Pollution Control Revolving Loan Fund all outstanding maturities (subsequent to scheduled debt service on November 1, 2016) of KDFA Series 2001 II and KDFA Series CW II in the total amount of \$20,810,000. The required escrow deposit will be \$22,044,551. The State Treasurer will serve as Escrow Agent.

On July 20, 2016, the State Finance Council met and passed Resolution No. 16-664 approving the merger of the Kansas Bioscience Authority with the Kansas Department of Commerce effective July 22, 2016. This action specifically vested the Kansas Department of Commerce with all powers, duties, functions, properties, property

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## IV. Other Information

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rights, records, moneys, appropriations, rights and authorities of the Kansas Bioscience Authority. The Kansas Bioscience Authority ceased to exist as of July 22, 2016. This State Finance Council action was in accordance with Section 6 of 2016 House Bill 2632 and K.S.A. 74-99b15.

The Kansas Public Employees Retirement System is currently conducting an actuarial experience study in accordance with requirements of the Retirement Act. The Act requires the Retirement System to conduct an actuarial experience study every three years for the purpose of evaluating the current actuarial assumptions regarding mortality, retirement, disability, employment, turnover, interest and earnable compensation of the members and beneficiaries of the Retirement System. Based upon the results of this review, the Board of Trustees may adopt such actuarial assumptions as it deems appropriate. One of the recommendations made by the System's actuarial firm was to reduce the assumed rate of return. The current rate of return is 8 percent. The earliest actuarial valuation affected would be the December 31, 2016 report. This change would affect the funded status of the plan and also the calculation of the total pension liability for fiscal year 2017.

### **H. Economic Condition**

Prior to the beginning of fiscal year 2016, the Consensus Estimating Group \*\*\* estimated that State General Fund receipts would total \$6,325.0 million. However, actual receipts for fiscal year totaled \$6,152.2 million. The decline in revenues required mid-year adjustments using the allotment authority provided to the executive branch. An executive branch allotment system to reduce expenditures is applicable to the expenditures by State agencies when under certain circumstances for any fiscal year the resources of the State General Fund or any special revenue fund appear likely to be insufficient to cover appropriations made against the State General Fund or such special revenue fund. Such determinations are to be made by the Director of the Budget.

This allotment authority was expanded first in 2015 Senate Substitute for House Bill 2135 and then again under 2016 House Substitute for Senate Bill 161. The expanded authority allows State General Fund expenditure reductions and transfers from special revenue funds to the State General Fund whenever the estimated State General Fund ending balance is below \$100.0 million. The Governor enacted four allotments during fiscal year 2016 which reduced executive branch State General Fund expenditures by \$111.4 million and transferred \$101.7 million from special revenue funds to the State General Fund. In addition, the Governor made an allotment for fiscal year 2017 in conjunction with signing House Substitute for Senate Bill 249, the omnibus appropriation bill. The bill passed by the 2016 Legislature assumed actions would be taken by the Governor to balance the fiscal year 2017 budget. This allotment reduced executive branch expenditures by \$93.0 million and transferred \$4.0 million from special revenue funds to the State General Fund. The allotments represent a 4.0 percent reduction to most state agencies with exemptions for the Department of Corrections, Kansas Bureau of Investigation, Kansas Highway Patrol and the state hospitals. The Governor also excluded any reduction to K-12 education as directed by the Legislature.

The Consensus Estimating Group met on November 10, 2016 to revise the State General Fund revenue estimate for FY 2017 and to make its first official assessment of FY 2018 and FY 2019.

For FY 2017, the estimate was decreased by \$345.9 million, or 5.5 percent, below the previous estimate made in April and subsequently adjusted for legislation enacted during the veto session and special session. The revised estimate of \$5.980 billion represents 1.5 percent below final FY 2016 receipts.

The initial estimate for FY 2018 is \$5.536 billion, which is \$443.7 million, or 7.4 percent, below the newly revised FY 2017 figure. Various factors influencing this change in revenues in addition to the state of the economy include net change in transfers out of the State General Fund based on current statutory requirements for FY 2018. The amount of total taxes is estimated to increase by 1.4 percent in FY 2018, following a 1.3 percent decrease in FY 2017.

The initial estimate for FY 2019 is \$5.575 billion, which is \$39.0 million, or 0.7 percent, above the FY 2018 figure.



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## **IV. Other Information**

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\*\*\*The tool used by both the Governor and the Legislature to determine State General Fund revenue is the "consensus revenue estimate" prepared by the Consensus Revenue Estimating Group. This group is composed of representatives of the Division of the Budget, Department of Revenue, Legislative Research Department, and one consulting economist each from the University of Kansas, Kansas State University, and Wichita State University. This group meets each spring and fall. Before December 4th, the group makes its initial estimate for the budget year and revises the estimate for the current year. By April 20th, the fall estimate is reviewed, along with any additional data. A revised estimate is published, which the Legislature may use in adjusting expenditures, if necessary.

**REQUIRED  
SUPPLEMENTARY  
INFORMATION**

## **Budgetary Information**

Annual budgets are adopted on a cash basis with encumbrance modifications for all governmental funds. Appropriations may be re-appropriated if the balance is greater than \$100, or lapsed at fiscal year end.

On or before October 1 of even-numbered years, agencies are required to submit biennial budget estimates for the next two fiscal years to the Division of Budget. These estimates are used in preparing the Governor's budget report. On or before the eighth calendar day of each regular legislative session, the Governor is required to submit the budget report to the Legislature. However, in the case of the regular legislative session immediately following the election of a governor who was elected to the Office of Governor for the first time, that governor must submit the budget report to the legislature on or before the 21<sup>st</sup> calendar day of that regular session.

The State maintains budgetary restrictions and controls, imposed through annual appropriations and limitations, approved by the Legislature. Agency, fund, and budget unit usually establish the level of budgetary control in the central accounting system. Budgetary control is maintained by mechanisms in the accounting system that prevent expenditures and firm encumbrances in excess of appropriations or limitations and/or available cash. Encumbrances are reported as expenditures for budgetary purposes and as reserved fund balances in the governmental financial statements in this report. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the budget unit level. The supplemental budgetary appropriations made in the General Fund were not material. Due to the volume of data, the detailed budget information at the budget unit level is not presented here.

State of Kansas  
**Required Supplementary Information**  
June 30, 2016

**Schedule of Revenue, Expenditures, and  
Changes in Fund Balances - Budget and Actual  
General Fund  
For the Fiscal Year Ended June 30, 2016  
(expressed in thousands)**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget - Over (Under)
	Original	Final		
<b>Revenues and other financing sources:</b>				
Property tax	\$ 11,000	\$ 11,500	\$ 432	\$ (11,068)
Income and inheritance tax	2,950,800	2,752,000	2,640,824	(111,176)
State sales tax	2,390,900	2,270,000	2,273,941	3,941
Consumer's and retailer's compensating use tax	395,300	385,000	384,992	(8)
Tobacco and liquor taxes	236,000	244,700	246,346	1,646
Severance taxes	73,800	24,000	22,395	(1,605)
Insurance premiums taxes	156,848	169,000	170,202	1,202
Other taxes	8,371	8,500	12,700	4,200
Investment earnings	17,800	26,300	22,433	(3,867)
Transfers	27,374	238,310	189,843	(48,467)
Charges for services, other revenues and financing sources	56,840	41,000	54,180	13,180
Total revenues and other financing sources	<u>6,325,033</u>	<u>6,170,310</u>	<u>6,018,288</u>	<u>(152,022)</u>
<b>Expenditures and other financing uses:</b>				
Current:				
General government	306,964	306,002	302,689	(3,313)
Human resources	986,486	970,929	967,148	(3,781)
Education	4,052,197	3,906,426	3,820,542	(85,884)
Public safety	393,290	386,666	383,761	(2,905)
Agriculture and natural resources	11,314	10,818	10,818	0
Health and environment	714,126	697,678	695,947	(1,731)
Total expenditures and other financing uses	<u>6,464,377</u>	<u>6,278,519</u>	<u>6,180,905</u>	<u>(97,614)</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	<u>(139,344)</u>	<u>(108,209)</u>	<u>(162,617)</u>	<u>\$ (54,408)</u>
Fund balances, beginning of year	158,062	254,104	(141,961)	
Fund balances, end of year	<u>\$ 18,718</u>	<u>\$ 145,895</u>	<u>\$ (304,578)</u>	

State of Kansas  
**Required Supplementary Information**  
June 30, 2016

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**Reconciliation of the Schedule of Revenues, Expenditures, and Changes in  
Fund Balances - Budget to Actual with the Statement of Revenues, Expenditures,  
and Changes in Fund Balances- Governmental Funds for the *General Fund***  
**For the Fiscal Year Ended June 30, 2016**  
*(expressed in thousands)*

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Excess of revenues and other financing sources over expenditures and other financing uses - budgetary basis	\$ (162,617)
Current year encumbrances are reported as expenditures for budgetary reporting purposes	27,148
Expenditures on prior year encumbrances are not reported for budgetary reporting purposes	(19,623)
Budgetary expenditures and transfers to other state funds have been adjusted to GAAP basis	(113,701)
Budgetary basis revenues and transfers from other state funds have been adjusted to GAAP basis	<u>43,019</u>
Changes in Fund Balance as reported on the Statement of Revenue, Expenditures, and Changes in Fund Balance	<u><u>\$ (225,774)</u></u>

State of Kansas  
**Required Supplementary Information**  
June 30, 2016

**Schedule of Revenue, Expenditures, and  
Changes in Fund Balances - Budget and Actual  
Social Services  
For the Fiscal Year Ended June 30, 2016  
(expressed in thousands)**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget - Over (Under)
	Original	Final		
<b>Revenues and other financing sources:</b>				
Tobacco and liquor taxes	\$ 3,158	\$ 3,158	\$ 3,257	\$ 99
Operating grants	414,055	414,156	698,334	284,178
Investment earnings	8	8	104	96
Transfers	811,699	811,699	792,024	(19,675)
Charges for services, other revenues and financing sources	113,968	108,577	106,685	(1,892)
Total revenues and other financing sources	<u>1,342,888</u>	<u>1,337,598</u>	<u>1,600,404</u>	<u>262,806</u>
<b>Expenditures and other financing uses:</b>				
Current:				
Human resources	<u>1,313,397</u>	<u>1,605,298</u>	<u>1,605,298</u>	<u>0</u>
Total expenditures and other financing uses	<u>1,313,397</u>	<u>1,605,298</u>	<u>1,605,298</u>	<u>0</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ 29,491</u>	<u>\$ (267,700)</u>	<u>\$ (4,894)</u>	<u>\$ 262,806</u>

State of Kansas  
**Required Supplementary Information**  
June 30, 2016

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**Reconciliation of the Schedule of Revenues, Expenditures, and Changes in  
Fund Balances - Budget to Actual with the Statement of Revenues, Expenditures,  
and Changes in Fund Balances - Governmental Funds for  
Social Services  
For the Fiscal Year Ended June 30, 2016  
(expressed in thousands)**

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Excess of revenues and other financing sources over expenditures and other financing uses - budgetary basis	\$ (4,894)
Current year encumbrances are reported as expenditures for budgetary reporting purposes	35,982
Expenditures on prior year encumbrances are not reported for budgetary reporting purposes	(21,456)
Budgetary expenditures and transfers to other state funds have been adjusted to GAAP basis	(22,260)
Budgetary basis revenues and transfers from other state funds have been adjusted to GAAP basis	<u>15,419</u>
Changes in Fund Balance as reported on the Statement of Revenue, Expenditures, and Changes in Fund Balance	<u><u>\$ 2,791</u></u>

State of Kansas  
**Required Supplementary Information**  
June 30, 2016

**Schedule of Revenue, Expenditures, and  
Changes in Fund Balances - Budget and Actual**  
*Transportation Fund*  
**For the Fiscal Year Ended June 30, 2016**  
*(expressed in thousands)*

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget - Over (Under)
	Original	Final		
<b>Revenues:</b>				
Motor fuel taxes	\$ 289,102	\$ 290,590	\$ 297,773	\$ 7,183
Vehicle registrations and permits	215,840	216,044	214,889	(1,155)
Intergovernmental	390,569	337,447	278,884	(58,563)
Sales and use taxes	537,490	514,379	517,830	3,451
Investment earnings	819	660	1,183	523
Other	8,132	13,356	8,420	(4,936)
Transfers from other state funds	1,396	1,401	4,563	3,162
Total revenues	<u>1,443,348</u>	<u>1,373,877</u>	<u>1,323,542</u>	<u>(50,335)</u>
<b>Expenditures, with legal limits:</b>				
Current operating:				
Maintenance	132,732	134,504	129,780	(4,724)
Construction	60,665	60,843	55,299	(5,544)
Local support	7,461	7,301	6,040	(1,261)
Administration and transportation planning	58,306	56,515	44,363	(12,152)
Expenditures with legal limits	<u>259,164</u>	<u>259,163</u>	<u>235,482</u>	<u>(23,681)</u>
<b>Expenditures, without legal limits:</b>				
Current operating:				
Maintenance	447	447	576	129
Local support	447,076	450,316	339,534	(110,782)
Administration and transportation planning	42,541	48,460	58,105	9,645
Capital improvements	1,151	1,151	675	(476)
Transfers to other state funds	434,101	526,201	526,201	0
Expenditures without legal limits	<u>925,316</u>	<u>1,026,575</u>	<u>925,091</u>	<u>(101,484)</u>
Total expenditures	<u>1,184,480</u>	<u>1,285,738</u>	<u>1,160,573</u>	<u>(125,165)</u>
Excess of revenues over expenditures	<u>258,868</u>	<u>88,139</u>	<u>162,969</u>	<u>74,830</u>
<b>Other financing sources (uses):</b>				
Transfers-in	250,000	403,412	488,243	84,831
Transfers-out	(212,499)	(219,142)	(208,431)	10,711
Total other financing sources (uses)	<u>37,501</u>	<u>184,270</u>	<u>279,812</u>	<u>95,542</u>
Excess of revenues and other sources over expenditures and other uses	<u>\$ 296,369</u>	<u>\$ 272,409</u>	<u>\$ 442,781</u>	<u>\$ 170,372</u>



State of Kansas  
**Required Supplementary Information**  
June 30, 2016

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**Reconciliation of the Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual with the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds for the *Transportation Fund* For the Fiscal Year Ended June 30, 2016**  
*(expressed in thousands)*

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Excess of revenues and other financing sources over expenditures and other financing uses - budgetary basis	\$ 442,781
Budgetary basis revenues and transfers from other state funds have been adjusted to GAAP basis	70,982
Current year encumbrances are reported as expenditures for budgetary reporting purposes	37,868
Budgetary expenditures and transfers to other state funds have been adjusted to GAAP basis	<u>(507,647)</u>
Changes in Fund Balance as reported on the Statement of Revenue, Expenditures, and Changes in Fund Balance	<u><u>\$ 43,984</u></u>

State of Kansas  
**Required Supplementary Information**  
June 30, 2016

**Schedule of Revenue, Expenditures, and  
Changes in Fund Balances - Budget and Actual  
Health and Environment  
For the Fiscal Year Ended June 30, 2016  
(expressed in thousands)**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget - Over (Under)
	Original	Final		
<b>Revenues and Other Financing Sources:</b>				
Income and inheritance tax	\$ 0	\$ 0	\$ 0	\$ 0
Tobacco & liquor taxes	10	10	0	(10)
Insurance premiums taxes	0	0	106,223	106,223
Other taxes	0	0	1,616	1,616
Operating grants	1,300,970	1,300,970	2,119,971	819,001
Investment earnings	506	506	360	(146)
Transfers	15,504	15,778	(779,300)	(795,078)
Charges for services, other revenues & financing sources	942,929	942,928	347,958	(594,970)
Total revenues and other financing sources	<u>2,259,919</u>	<u>2,260,192</u>	<u>1,796,828</u>	<u>(463,364)</u>
<b>Expenditures and Other Financing Uses:</b>				
Current:				
Health and environment	<u>1,771,439</u>	<u>2,372,974</u>	<u>2,372,974</u>	<u>0</u>
Total expenditures and other financing uses	<u>1,771,439</u>	<u>2,372,974</u>	<u>2,372,974</u>	<u>0</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ 488,480</u>	<u>\$ (112,782)</u>	<u>\$ (576,146)</u>	<u>\$ (463,364)</u>

State of Kansas  
**Required Supplementary Information**  
June 30, 2016

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**Reconciliation of the Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual with the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds for *Health and Environment* For the Fiscal Year Ended June 30, 2016**  
*(expressed in thousands)*

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Excess of revenues and other financing sources over expenditures and other financing uses - budgetary basis	\$ (576,146)
Current year encumbrances are reported as expenditures for budgetary reporting purposes	60,907
Expenditures on prior year encumbrances are not reported for budgetary reporting purposes	(43,960)
Budgetary expenditures and transfers to other state funds have been adjusted to GAAP basis	498,207
Budgetary basis revenues and transfers from other state funds have been adjusted to GAAP basis	<u>49,193</u>
Changes in Fund Balance as reported on the Statement of Revenue, Expenditures, and Changes in Fund Balance	<u><u>\$ (11,799)</u></u>

State of Kansas  
**Required Supplementary Information**  
June 30, 2016

**Schedule of Revenue, Expenditures, and  
Changes in Fund Balances - Budget and Actual  
Education**  
**For the Fiscal Year Ended June 30, 2016**  
*(expressed in thousands)*

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget - Over (Under)
	Original	Final		
<b>Revenues and Other Financing Sources:</b>				
Property tax	\$ 582,226	\$ 596,566	\$ 595,135	\$ (1,431)
Operating grants	479,608	479,608	471,513	(8,095)
Transfers	269,020	269,820	268,037	(1,783)
Charges for services, other revenues & financing sources	51,755	51,755	59,900	8,145
Total revenues and other financing sources	<u>1,382,609</u>	<u>1,397,749</u>	<u>1,394,585</u>	<u>(3,164)</u>
<b>Expenditures and Other Financing Uses:</b>				
Current:				
Education	1,374,780	1,389,721	1,389,721	0
Total expenditures and other financing uses	<u>1,374,780</u>	<u>1,389,721</u>	<u>1,389,721</u>	<u>0</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ 7,829</u>	<u>\$ 8,028</u>	<u>\$ 4,864</u>	<u>\$ (3,164)</u>

State of Kansas  
**Required Supplementary Information**  
June 30, 2016

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**Reconciliation of the Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual with the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds for *Education***  
**For the Fiscal Year Ended June 30, 2016**  
*(expressed in thousands)*

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Excess of revenues and other financing sources over expenditures and other financing uses - budgetary basis	\$ 4,864
Current year encumbrances are reported as expenditures for budgetary reporting purposes	3,282
Expenditures on prior year encumbrances are not reported for budgetary reporting purposes	(6,528)
Budgetary expenditures and transfers to other state funds have been adjusted to GAAP basis	(5,629)
Budgetary basis revenues and transfers from other state funds have been adjusted to GAAP basis	<u>(1,869)</u>
Changes in Fund Balance as reported on the Statement of Revenue, Expenditures, and Changes in Fund Balance	<u><u>\$ (5,880)</u></u>

**Support of Modified Approach for Kansas Department of Transportation Infrastructure Reporting**

**Roadway Pavement**

The highway pavement in the State is made up of two systems: Interstate Highways and Non-interstate Highways. Roadway Pavement is also referred to as Roadways. The condition of these systems is assessed annually using a Pavement Management System that measures the condition of the pavement surface. The Pavement condition is a combined score based on three factors: roughness (measured as International Roughness Index, or IRI), joint distress in concrete or transverse cracking in asphalt, and faulting in concrete or rutting in asphalt. The condition of the pavement surface to classify the roads into the following three performance levels:

PL-1 Roadway surface is in good condition and needs only routine or light preventative maintenance.

PL-2 Roadway surface needs at least routine maintenance.

PL-3 Roadway surface is in poor condition and needs significant work.

KDOT has goals to maintain these systems at levels higher than the minimum acceptable condition. The cost to repair or replace deteriorated pavement far exceeds the cost to maintain pavement that is already in good condition, so maintaining pavement at levels above minimum acceptable condition requires a pavement management strategy that accounts for life-cycle costs. KDOT has redefined the minimum acceptable condition level as having at least 85 percent of the interstate miles in PL-1 and at least 80 percent of the non-interstate miles in PL-1. The following table compares the minimum acceptable condition level with the actual condition for the current and prior years.

Fiscal Year	Interstate Miles		Non-interstate Miles	
	Minimum Acceptable Condition Level*	Actual Condition Level*	Minimum Acceptable Condition Level*	Actual Condition Level*
2014	85	98	80	89
2015	85	98	80	90
2016	85	97	80	92

\* Percent of miles in PL-1

KDOT's goal is to continually maintain and improve the condition of the State Highway System. To achieve this goal it is necessary to perform maintenance activities and replace those assets that can no longer be economically maintained. KDOT concentrates resources on items that are measured. To maintain the Interstate Highways at or above the stated minimum condition level it is estimated that annual preservation and replacement expenditures must exceed \$97 million in fiscal year 2016. To maintain the Non-interstate Highways at or above the stated minimum condition level it is estimated that annual preservation and replacement expenditures must exceed \$241 million in fiscal year 2016. The estimated expenditure amounts are based on the projected T-WORKS program funding levels for preservation that are anticipated to be needed to maintain the system. The actual expenses are based on project expenditures for preservation and some capacity and modernization costs that improve the roadway surface. The following table compares the estimated expenditures needed to maintain the system at a minimum acceptable condition level with actual amounts spent for the current and prior years (expressed in thousands).

State of Kansas  
**Required Supplementary Information**  
June 30, 2016

Fiscal Year	Interstate Miles		Non-interstate Miles	
	Minimum Acceptable Condition Level	Actual Expenses	Minimum Acceptable Condition Level	Actual Expenses
2012	\$ 84,000	\$ 112,600	\$ 208,000	\$ 442,608
2013	87,000	119,170	215,000	412,050
2014	90,000	126,485	223,000	375,772
2015	93,000	144,777	231,000	423,375
2016	97,000	173,099	241,000	391,530

### Bridges

Federal law (Title 23 CFR 650) requires that each bridge be inspected at least every 24 months. Bridge condition data for key elements (deck, girders, floor beams, columns, etc.) are collected during these inspections and stored within KDOT's Bridge Management System. Each element is given a score based on its condition. These element scores are then weighted and aggregated to establish an overall Bridge Health Index (BHI) which ranges from 0 to 100. A BHI of 100 denotes a bridge that is in "like-new" condition.

The Performance Metric is the percent of state-owned bridges in Good Condition, with the condition state of a bridge being defined as follows:

- Good Condition: BHI  $\geq$  88
- Fair Condition:  $75 \leq$  BHI  $<$  88
- Deteriorated Condition: BHI  $<$  75

The following table below compares the actual percentage of bridges in good condition to the minimum acceptable percent of bridges in good condition. An overall state-wide condition level of 85 has been defined as the minimum acceptable percentage of bridges in good condition. This table compares the minimum acceptable percentage of bridges in good health with the actual measure of bridges in good health for the current and prior years.

Fiscal Year	Minimum Acceptable Health Index	Actual Condition Level
2014	85	87
2015	85	86
2016	85	87

KDOT's goal is to continually improve the condition of the State's bridge system. To achieve this goal it is necessary to perform maintenance activities and to replace those bridges that can no longer be economically maintained. To maintain the State's bridges at or above the stated minimum acceptable percentage of bridges in good condition, it is estimated that annual preservation and replacement expenditures must be approximately \$85 million for fiscal year 2016.

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The following table compares the estimated annual expenditures needed to maintain the bridges system with the actual expenditures for the current and prior years (expressed in thousands).

Fiscal Year	Minimum Acceptable Health Index	Actual Expenses
2012	\$73,000	87,890
2013	76,000	82,046
2014	78,000	92,372
2015	81,000	129,420
2016	85,000	124,954

**OPEB Schedule of Funding Progress**  
*(expressed in thousands)*

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Accrued Liability (AAL) ( b )	Unfunded AAL ( b-a )	Funded Ratio ( a/b )	Covered Payroll ( c )	Percent of Covered Payroll ((b-a)/c)
6/30/2014	0	\$ 255,988	\$ 255,988	0%	\$ 2,074,593	12.34%
6/30/2015	0	213,937	213,937	0%	2,104,749	10.16%
6/30/2016	0	5,657	5,657	0%	2,140,445	0.26%



State of Kansas  
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**Schedule of the State's Proportionate Share of the Net Pension Liability**  
**Kansas Pension Retirement Plan**  
**Last 3 Years\***

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	<u>2016</u>	<u>2015</u>	<u>2014</u>
Measurement date	June 30, 2015	June 30, 2014	June 30, 2013
<b>Primary Government: Employer</b>			
Proportion of the net pension liability			
State/School employees	18.702%	18.323%	18.936%
Police and Firemen	7.446%	7.451%	7.90%
Judges	100%	100%	100%
Proportionate share of the collective net pension liability	\$ 1,364,406	\$ 1,234,936	\$ 1,469,597
Covered-employee payroll	\$ 1,284,193	\$ 1,275,266	\$ 1,297,062
Proportionate share of the collective net pension liability as a percentage of its covered-employee payroll	106.25%	96.84%	113.30%
Plan fiduciary net position as a percentage of the total pension liability	64.95%	66.60%	59.94%
<b>Primary Government: Nonemployer</b>			
State's proportion of the net pension liability	96.39%	100.00%	100.00%
State's proportionate share of the collective net pension liability	\$ 720,205	\$ 676,508	\$ 774,047
Plan fiduciary net position as a percentage of the total pension liability	64.95%	66.60%	59.94%
<b>Component Units</b>			
Proportion of the net pension liability			
State/School employees	3.516%	3.407%	3.587%
Police and Firemen	1.345%	1.215%	1.775%
Local	1.123%	1.169%	1.279%
Proportionate share of the collective net pension liability	\$ 268,020	\$ 240,024	\$ 288,521
Covered-employee payroll	\$ 790,266	\$ 803,161	\$ 779,336
Proportionate share of the collective net pension liability as a percentage of its covered-employee payroll	33.92%	29.88%	37.02%
Plan fiduciary net position as a percentage of the total pension liability	64.95%	66.60%	59.94%

\* GASB 68 requires a presentation of 10 years. As of June 30, 2016 only three years of information is available

Note: Information on this schedule is measured as of the measurement date.

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**Schedule of State Contributions**  
**Kansas Pension Retirement Plan**  
**Last 3 Years\***

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Primary Government: Employer</b>			
Contractually required contribution	\$ 102,593	\$ 94,083	\$ 84,107
Contributions in relation to the contractually required contribution	<u>(222,790)</u>	<u>(94,083)</u>	<u>(84,107)</u>
Contribution deficiency (excess)	<u>\$ (120,197)</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 1,260,563	\$ 1,284,193	\$ 1,275,266
Contributions as a percentage of covered-employee payroll	8.14%	7.33%	6.60%
<b>Primary Government: Nonemployer</b>			
Contractually required contribution	\$ 50,323	\$ 45,182	\$ 47,738
Contributions in relation to the contractually required contribution	<u>(165,443)</u>	<u>(45,182)</u>	<u>(47,738)</u>
Contribution deficiency (excess)	<u>\$ (115,120)</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Component Units</b>			
Contractually required contribution	\$ 19,062	\$ 18,256	\$ 17,974
Contributions in relation to the contractually required contribution	<u>(19,062)</u>	<u>(18,256)</u>	<u>(17,974)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 876,207	\$ 790,266	\$ 803,161
Contributions as a percentage of covered-employee payroll	2.18%	2.31%	2.24%

\* GASB 68 requires a presentation of 10 years. As of June 30, 2016 only three years of information is available

Note: Covered payroll is measured as of the fiscal year end, the most recent of which is June 30, 2016

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*Changes in benefit terms for KPERS.* Effective January 1, 2015, KPERS Tier 1 member's employee contribution rate increased to 6.0%, with an increase in benefit multiplier to 1.85% for future years of service. For Tier II members retiring after July 1, 2012, the cost of living adjustments (COLA) is eliminated, but members will receive a 1.85% multiplier for all years of service.

January 1, 2015, the KPERS 3 cash balance plan became effective. Members enrolled in this plan are ones first employed in a KPERS covered position on or after January 1, 2015, or KPERS 1 or KEPRS 2 members who left employment before vesting and returned to employment on or after January 1, 2015. The retirement benefit is an annuity based on the account balance at retirement.

*Changes in assumptions.*

The major items of impact in the actuarial valuation dated December 31, 2014 relative to the prior valuation are as follows:

- Reduce disability rates by 20% for all three KPERS groups.
- Increase the termination of employment rates for State-Males and Local Males and Females.
- Modify the election of a deferred benefit by Local vested members who terminate employment in future years.
- Increase the load for the impact of final average salary provisions for Local, C55 and C60 members hired before July 1, 1993.
- Establish an interest crediting rate of 6.50% for KPERS 3 members.

**OTHER  
SUPPLEMENTARY  
INFORMATION**

## **Listing of Non-Major Governmental Funds**

### **Special Revenue Funds**

Special revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes:

State Regulatory Boards and Commissions  
Correctional Facilities  
Tobacco Settlement for Children's Initiatives  
Adjutant General  
Agriculture  
Attorney General  
Administration  
Highway Patrol  
Historical Society  
Labor  
Commerce  
Insurance  
Judicial  
State Library  
Revenue  
Secretary of State  
State Treasurer  
Wildlife, Parks and Tourism  
Executive  
Legislative  
Transportation Special Revenue  
State Water Plan  
Peace Officer Training

### **Capital Projects Funds**

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds:

Transportation - Capital Projects  
State Buildings (Appropriated)  
Capitol Complex Buildings  
State Library

### **Debt Service Funds**

Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principle and interest:

Master Lease Program  
Corrections  
Pooled Fund  
Armories  
Public Broadcasting Digital  
Vital Statistics Project  
Highway Patrol  
Labor  
Bond and Interest  
Highway Debt Service

State of Kansas  
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**Combining Balance Sheet - Nonmajor Governmental Funds**  
**June 30, 2016**  
*(expressed in thousands)*

	Special Revenue Funds			
	State Regulatory Boards and Commissions	Correctional Facilities	Tobacco Settlement for Children's Initiative	Adjutant General
<b>ASSETS</b>				
Cash and cash equivalents	\$ 88,625	\$ 14,486	\$ 6,530	\$ 839
Investments	0	0	0	0
Receivables, net	9,151	1,429	0	7,388
Due from other funds	0	0	0	0
Inventories	0	1,254	0	0
Advances to other funds	0	0	0	0
Restricted cash and cash equivalents	0	0	0	0
Restricted investments	0	0	0	0
<b>Total assets</b>	<u>\$ 97,776</u>	<u>\$ 17,169</u>	<u>\$ 6,530</u>	<u>\$ 8,227</u>
<b>LIABILITIES</b>				
Accounts payable and other liabilities	\$ 10,318	\$ 2,847	\$ 3,486	\$ 3,348
Due to other funds	0	0	0	0
Advances from other funds	0	192	0	0
Bonds payable on demand	0	0	0	0
<b>Total liabilities</b>	<u>10,318</u>	<u>3,039</u>	<u>3,486</u>	<u>3,348</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue - taxes	0	0	0	0
<b>Total deferred inflows of resources</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>FUND BALANCES</b>				
Nonspendable:				
Long-term receivable	0	0	0	0
Inventories	0	1,254	0	0
Restricted for:				
Capital Projects	0	0	0	0
Debt Service	0	0	0	0
General government	53,035	0	0	0
Human Resources	854	0	3,044	0
Education	3	0	0	0
Public Safety	24,288	12,876	0	4,879
Agriculture and natural resources	9,278	0	0	0
Highways and other transportation	0	0	0	0
Unassigned	0	0	0	0
<b>Total fund balance</b>	<u>87,458</u>	<u>14,130</u>	<u>3,044</u>	<u>4,879</u>
<b>Total liabilities, deferred inflows of resources, and fund balance</b>	<u>\$ 97,776</u>	<u>\$ 17,169</u>	<u>\$ 6,530</u>	<u>\$ 8,227</u>

State of Kansas  
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**Combining Balance Sheet - Nonmajor Governmental Funds - Continued**  
**June 30, 2016**  
*(expressed in thousands)*

	Special Revenue Funds			
	Agriculture	Attorney General	Administration	Highway Patrol
<b>ASSETS</b>				
Cash and cash equivalents	\$ 12,903	\$ 25,516	\$ 3,986	\$ 26,857
Investments	0	0	0	0
Receivables, net	591	67	10	145
Due from other funds	0	0	0	2
Inventories	0	0	1,472	528
Advances to other funds	0	0	0	0
Restricted cash and cash equivalents	0	0	52	0
Restricted investments	0	0	0	0
<b>Total assets</b>	<b>\$ 13,494</b>	<b>\$ 25,583</b>	<b>\$ 5,520</b>	<b>\$ 27,532</b>
<b>LIABILITIES</b>				
Accounts payable and other liabilities	\$ 1,959	\$ 1,943	\$ 4,053	\$ 6,994
Due to other funds	183	0	0	2
Advances from other funds	520	0	0	0
Bonds payable on demand	0	0	0	0
<b>Total liabilities</b>	<b>2,662</b>	<b>1,943</b>	<b>4,053</b>	<b>6,996</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue - taxes	0	0	0	0
<b>Total deferred inflows of resources</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>FUND BALANCES</b>				
Nonspendable:				
Long-term receivable	0	0	0	0
Inventories	0	0	1,472	528
Restricted for:				
Capital Projects	0	0	0	0
Debt Service	0	0	0	0
General government	0	16,989	0	0
Human Resources	0	0	0	0
Education	0	0	0	0
Public Safety	0	6,651	0	20,008
Agriculture and natural resources	10,832	0	0	0
Highways and other transportation	0	0	0	0
Unassigned	0	0	(5)	0
<b>Total fund balance</b>	<b>10,832</b>	<b>23,640</b>	<b>1,467</b>	<b>20,536</b>
<b>Total liabilities, deferred inflows of resources, and fund balance</b>	<b>\$ 13,494</b>	<b>\$ 25,583</b>	<b>\$ 5,520</b>	<b>\$ 27,532</b>



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**Combining Balance Sheet - Nonmajor Governmental Funds - Continued**  
**June 30, 2016**  
*(expressed in thousands)*

Special Revenue Funds				
	Historical Society	Labor	Commerce	Insurance
<b>ASSETS</b>				
Cash and cash equivalents	\$ 5,833	\$ 33,243	\$ 65,966	\$ 11,670
Investments	0	0	3,451	0
Receivables, net	550	525	75	5
Due from other funds	0	0	0	0
Inventories	0	0	0	0
Advances to other funds	0	0	0	0
Restricted cash and cash equivalents	0	0	214	0
Restricted investments	0	0	12,410	0
<b>Total assets</b>	<u>\$ 6,383</u>	<u>\$ 33,768</u>	<u>\$ 82,116</u>	<u>\$ 11,675</u>
<b>LIABILITIES</b>				
Accounts payable and other liabilities	\$ 427	\$ 2,543	\$ 9,278	\$ 708
Due to other funds	0	0	0	0
Advances from other funds	0	0	0	0
Bonds payable on demand	0	0	0	0
<b>Total liabilities</b>	<u>427</u>	<u>2,543</u>	<u>9,278</u>	<u>708</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue - taxes	0	0	0	0
<b>Total deferred inflows of resources</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>FUND BALANCES</b>				
Nonspendable:				
Long-term receivable	0	0	0	0
Inventories	0	0	0	0
Restricted for:				
Capital Projects	0	0	0	0
Debt Service	0	0	0	0
General government	0	0	72,838	10,967
Human Resources	0	31,225	0	0
Education	5,956	0	0	0
Public Safety	0	0	0	0
Agriculture and natural resources	0	0	0	0
Highways and other transportation	0	0	0	0
Unassigned	0	0	0	0
<b>Total fund balance</b>	<u>5,956</u>	<u>31,225</u>	<u>72,838</u>	<u>10,967</u>
<b>Total liabilities, deferred inflows of resources, and fund balance</b>	<u>\$ 6,383</u>	<u>\$ 33,768</u>	<u>\$ 82,116</u>	<u>\$ 11,675</u>

State of Kansas  
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June 30, 2016

**Combining Balance Sheet - Nonmajor Governmental Funds - Continued**  
**June 30, 2016**  
*(expressed in thousands)*

	Special Revenue Funds			
	Judicial	State Library	Revenue	Secretary of State
<b>ASSETS</b>				
Cash and cash equivalents	\$ 19,704	\$ 1,109	\$ 14,802	\$ 6,169
Investments	0	0	0	0
Receivables, net	196	0	38	1
Due from other funds	0	0	0	0
Inventories	0	0	0	0
Advances to other funds	0	0	0	0
Restricted cash and cash equivalents	0	0	0	0
Restricted investments	0	0	0	0
<b>Total assets</b>	<u>\$ 19,900</u>	<u>\$ 1,109</u>	<u>\$ 14,840</u>	<u>\$ 6,170</u>
<b>LIABILITIES</b>				
Accounts payable and other liabilities	\$ 3,236	\$ 36	\$ 4,571	\$ 226
Due to other funds	0	0	0	0
Advances from other funds	0	0	0	0
Bonds payable on demand	0	0	0	0
<b>Total liabilities</b>	<u>3,236</u>	<u>36</u>	<u>4,571</u>	<u>226</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue - taxes	0	0	0	0
<b>Total deferred inflows of resources</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>FUND BALANCES</b>				
Nonspendable:				
Long-term receivable	0	0	0	0
Inventories	0	0	0	0
Restricted for:				
Capital Projects	0	0	0	0
Debt Service	0	0	0	0
General government	16,664	0	10,269	5,944
Human Resources	0	0	0	0
Education	0	1,073	0	0
Public Safety	0	0	0	0
Agriculture and natural resources	0	0	0	0
Highways and other transportation	0	0	0	0
Unassigned	0	0	0	0
<b>Total fund balance</b>	<u>16,664</u>	<u>1,073</u>	<u>10,269</u>	<u>5,944</u>
<b>Total liabilities, deferred inflows of resources, and fund balance</b>	<u>\$ 19,900</u>	<u>\$ 1,109</u>	<u>\$ 14,840</u>	<u>\$ 6,170</u>

State of Kansas  
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June 30, 2016

**Combining Balance Sheet - Nonmajor Governmental Funds - Continued**  
**June 30, 2016**  
*(expressed in thousands)*

	Special Revenue Funds			
	State Treasurer	Wildlife, Parks and Tourism	Executive	Legislative
<b>ASSETS</b>				
Cash and cash equivalents	\$ 2,849	\$ 39,942	\$ 1,678	\$ 42
Investments	0	0	0	0
Receivables, net	0	5,375	0	0
Due from other funds	21,660	0	0	0
Inventories	0	0	0	0
Advances to other funds	134,506	0	0	0
Restricted cash and cash equivalents	0	174	0	0
Restricted investments	0	0	0	0
<b>Total assets</b>	<b>\$ 159,015</b>	<b>\$ 45,491</b>	<b>\$ 1,678</b>	<b>\$ 42</b>
<b>LIABILITIES</b>				
Accounts payable and other liabilities	\$ 156,482	\$ 5,400	\$ 38	\$ 0
Due to other funds	0	0	0	0
Advances from other funds	0	0	0	0
Bonds payable on demand	0	0	0	0
<b>Total liabilities</b>	<b>156,482</b>	<b>5,400</b>	<b>38</b>	<b>0</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue - taxes	0	0	0	0
<b>Total deferred inflows of resources</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>FUND BALANCES</b>				
Nonspendable:				
Long-term receivable	0	0	0	0
Inventories	0	0	0	0
Restricted for:				
Capital Projects	0	0	0	0
Debt Service	0	0	0	0
General government	2,533	0	1,640	42
Human Resources	0	0	0	0
Education	0	0	0	0
Public Safety	0	0	0	0
Agriculture and natural resources	0	40,091	0	0
Highways and other transportation	0	0	0	0
Unassigned	0	0	0	0
<b>Total fund balance</b>	<b>2,533</b>	<b>40,091</b>	<b>1,640</b>	<b>42</b>
<b>Total liabilities, deferred inflows of resources, and fund balance</b>	<b>\$ 159,015</b>	<b>\$ 45,491</b>	<b>\$ 1,678</b>	<b>\$ 42</b>

State of Kansas  
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**Combining Balance Sheet - Nonmajor Governmental Funds - Continued**  
**June 30, 2016**  
*(expressed in thousands)*

	Special Revenue Funds			Capital Projects Funds
	Transportation- Special Revenue	State Water Plan	Peace Officer Training	Transportation-Capital Projects
<b>ASSETS</b>				
Cash and cash equivalents	\$ 43,519	\$ 7,835	\$ 653	\$ 0
Investments	0	0	0	0
Receivables, net	5,420	1,770	0	0
Due from other funds	0	0	0	0
Inventories	0	0	0	0
Advances to other funds	0	0	0	0
Restricted cash and cash equivalents	0	0	0	1
Restricted investments	0	0	0	0
<b>Total assets</b>	<u>\$ 48,939</u>	<u>\$ 9,605</u>	<u>\$ 653</u>	<u>\$ 1</u>
<b>LIABILITIES</b>				
Accounts payable and other liabilities	\$ 1,540	\$ 1,640	\$ 48	\$ 0
Due to other funds	0	0	0	0
Advances from other funds	0	0	0	0
Bonds payable on demand	0	0	0	147,000
<b>Total liabilities</b>	<u>1,540</u>	<u>1,640</u>	<u>48</u>	<u>147,000</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue - taxes	0	196	0	0
<b>Total deferred inflows of resources</b>	<u>0</u>	<u>196</u>	<u>0</u>	<u>0</u>
<b>FUND BALANCES</b>				
Nonspendable:				
Long-term receivable	4,493	0	0	0
Inventories	0	0	0	0
Restricted for:				
Capital Projects	0	0	0	0
Debt Service	0	0	0	0
General government	0	0	0	0
Human Resources	0	0	0	0
Education	0	0	0	0
Public Safety	0	0	605	0
Agriculture and natural resources	0	7,769	0	0
Highways and other transportation	42,906	0	0	0
Unassigned	0	0	0	(146,999)
<b>Total fund balance</b>	<u>47,399</u>	<u>7,769</u>	<u>605</u>	<u>(146,999)</u>
<b>Total liabilities, deferred inflows of resources, and fund balance</b>	<u>\$ 48,939</u>	<u>\$ 9,605</u>	<u>\$ 653</u>	<u>\$ 1</u>

State of Kansas  
**Other Supplementary Information**  
June 30, 2016

**Combining Balance Sheet - Nonmajor Governmental Funds - Continued**  
**June 30, 2016**  
*(expressed in thousands)*

	Capital Projects Funds			Debt Service Funds
	State Buildings (Appropriated)	Capitol Complex Buildings	State Library	Master Lease Program
<b>ASSETS</b>				
Cash and cash equivalents	\$ 41,223	\$ 8	\$ 0	\$ 0
Investments	0	0	0	0
Receivables, net	0	0	0	12,892
Due from other funds	0	0	0	1,728
Inventories	0	0	0	0
Advances to other funds	0	0	0	3,338
Restricted cash and cash equivalents	0	30	0	2,936
Restricted investments	0	0	0	0
<b>Total assets</b>	<u>\$ 41,223</u>	<u>\$ 38</u>	<u>\$ 0</u>	<u>\$ 20,894</u>
<b>LIABILITIES</b>				
Accounts payable and other liabilities	\$ 1,193	\$ 0	\$ 0	\$ 4
Due to other funds	196	0	0	0
Advances from other funds	534	0	0	0
Bonds payable on demand	0	0	0	0
<b>Total liabilities</b>	<u>1,923</u>	<u>0</u>	<u>0</u>	<u>4</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue - taxes	0	0	0	0
<b>Total deferred inflows of resources</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>FUND BALANCES</b>				
Nonspendable:				
Long-term receivable	0	0	0	0
Inventories	0	0	0	0
Restricted for:				
Capital Projects	39,300	38	0	0
Debt Service	0	0	0	20,890
General government	0	0	0	0
Human Resources	0	0	0	0
Education	0	0	0	0
Public Safety	0	0	0	0
Agriculture and natural resources	0	0	0	0
Highways and other transportation	0	0	0	0
Unassigned	0	0	0	0
<b>Total fund balance</b>	<u>39,300</u>	<u>38</u>	<u>0</u>	<u>20,890</u>
<b>Total liabilities, deferred inflows of resources, and fund balance</b>	<u>\$ 41,223</u>	<u>\$ 38</u>	<u>\$ 0</u>	<u>\$ 20,894</u>

State of Kansas  
**Other Supplementary Information**  
June 30, 2016

**Combining Balance Sheet - Nonmajor Governmental Funds - Continued**  
**June 30, 2016**  
*(expressed in thousands)*

Debt Service Funds					
	Corrections	Pooled Funds	Armories	Public Broadcasting Digital	Vital Statistics Project
<b>ASSETS</b>					
Cash and cash equivalents	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Investments	0	0	0	0	0
Receivables, net	0	0	0	0	0
Due from other funds	0	0	0	0	0
Inventories	0	0	0	0	0
Advances to other funds	0	0	0	0	0
Restricted cash and cash equivalents	14	0	41	0	1
Restricted investments	0	0	0	0	0
<b>Total assets</b>	<u>\$ 14</u>	<u>\$ 0</u>	<u>\$ 41</u>	<u>\$ 0</u>	<u>\$ 1</u>
<b>LIABILITIES</b>					
Accounts payable and other liabilities	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Due to other funds	0	0	0	0	0
Advances from other funds	0	0	0	0	0
Bonds payable on demand	0	0	0	0	0
<b>Total liabilities</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable revenue - taxes	0	0	0	0	0
<b>Total deferred inflows of resources</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>FUND BALANCES</b>					
Nonspendable:					
Long-term receivable	0	0	0	0	0
Inventories	0	0	0	0	0
Restricted for:					
Capital Projects	0	0	0	0	0
Debt Service	14	0	41	0	1
General government	0	0	0	0	0
Human Resources	0	0	0	0	0
Education	0	0	0	0	0
Public Safety	0	0	0	0	0
Agriculture and natural resources	0	0	0	0	0
Highways and other transportation	0	0	0	0	0
Unassigned	0	0	0	0	0
<b>Total fund balance</b>	<u>14</u>	<u>0</u>	<u>41</u>	<u>0</u>	<u>1</u>
<b>Total liabilities, deferred inflows of resources, and fund balance</b>	<u>\$ 14</u>	<u>\$ 0</u>	<u>\$ 41</u>	<u>\$ 0</u>	<u>\$ 1</u>

State of Kansas  
**Other Supplementary Information**  
June 30, 2016

**Combining Balance Sheet - Nonmajor Governmental Funds - Concluded**  
**June 30, 2016**  
*(expressed in thousands)*

Debt Service Funds					
	Highway Patrol	Labor	Bond and Interest	Highway Debt Service	Total Nonmajor Governmental
<b>ASSETS</b>					
Cash and cash equivalents	\$ 0	\$ 0	\$ 0	\$ 0	\$ 475,987
Investments	0	0	0	0	3,451
Receivables, net	0	0	0	210	45,838
Due from other funds	0	0	0	0	23,390
Inventories	0	0	0	0	3,254
Advances to other funds	0	0	0	0	137,844
Restricted cash and cash equivalents	0	0	11,087	122,731	137,281
Restricted investments	0	0	0	0	12,410
<b>Total assets</b>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 11,087</u>	<u>\$ 122,941</u>	<u>\$ 839,455</u>
<b>LIABILITIES</b>					
Accounts payable and other liabilities	\$ 0	\$ 0	\$ 0	\$ 122	\$ 222,440
Due to other funds	0	0	0	0	381
Advances from other funds	0	0	0	0	1,246
Bonds payable on demand	0	0	0	0	147,000
<b>Total liabilities</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>122</u>	<u>371,067</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable revenue - taxes	0	0	0	0	196
<b>Total deferred inflows of resources</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>196</u>
<b>FUND BALANCES</b>					
Nonspendable:					
Long-term receivable	0	0	0	0	4,493
Inventories	0	0	0	0	3,254
Restricted for:					
Capital Projects	0	0	0	0	39,338
Debt Service	0	0	11,087	122,819	154,852
General government	0	0	0	0	190,921
Human Resources	0	0	0	0	35,123
Education	0	0	0	0	7,032
Public Safety	0	0	0	0	69,307
Agriculture and natural resources	0	0	0	0	67,970
Highways and other transportation	0	0	0	0	42,906
Unassigned	0	0	0	0	(147,004)
<b>Total fund balance</b>	<u>0</u>	<u>0</u>	<u>11,087</u>	<u>122,819</u>	<u>468,192</u>
<b>Total liabilities, deferred inflows of resources, and fund balance</b>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 11,087</u>	<u>\$ 122,941</u>	<u>\$ 839,455</u>

State of Kansas  
**Other Supplementary Information**  
June 30, 2016

**Combining Statement of Revenues, Expenditures, and Changes  
in Fund Balances - Nonmajor Governmental Funds  
For the Fiscal Year Ended June 30, 2016**  
*(expressed in thousands)*

	Special Revenue Funds			
	State Regulatory Boards and Commission	Correctional Facilities	Tobacco Settlement for Children's Initiative	Adjutant General
<b>Revenues:</b>				
Property tax	\$ 0	\$ 0	\$ 0	\$ 0
Income and inheritance tax	0	0	0	0
Sales and excise tax	0	0	0	0
Gross receipts tax	7,107	0	0	0
Charges for services	167,040	17,551	59,124	25
Operating grants	2,309	1,093	0	48,688
Capital grants	180	0	0	0
Investment earnings	63	3	57	1
Other revenues	4,038	2,206	15	5
<b>Total revenues</b>	<b>180,737</b>	<b>20,853</b>	<b>59,196</b>	<b>48,719</b>
<b>Expenditures:</b>				
Current:				
General government	106,418	0	0	0
Human resources	16,405	0	30,836	0
Education	0	0	13,319	0
Public safety	32,820	30,369	0	45,545
Agriculture and natural resources	8,157	0	0	0
Highways and other transportation	0	0	0	0
Health and environment	0	0	6,935	0
Debt service:				
Principal	1,062	21	0	0
Interest	890	42	0	0
<b>Total expenditures</b>	<b>165,752</b>	<b>30,432</b>	<b>51,090</b>	<b>45,545</b>
<b>Excess of revenues over (under) expenditures</b>	<b>14,985</b>	<b>(9,579)</b>	<b>8,106</b>	<b>3,174</b>
<b>Other financing sources (uses):</b>				
Issuance of bonds	0	0	0	0
Issuance of notes payable	0	0	0	0
Issuance of capital leases	0	0	0	0
Premium on issuance of debt	0	0	0	0
Issuance of refunding bonds	0	0	0	0
Premium on issuance of refunding debt	0	0	0	0
Payment to refunded bond escrow agent	0	0	0	0
Transfers, net	(28,394)	9,587	(22,802)	196
<b>Total other financing sources (uses)</b>	<b>(28,394)</b>	<b>9,587</b>	<b>(22,802)</b>	<b>196</b>
<b>Net change in fund balances</b>	<b>(13,409)</b>	<b>8</b>	<b>(14,696)</b>	<b>3,370</b>
<b>Fund balances, beginning of year</b>	<b>100,867</b>	<b>14,122</b>	<b>17,740</b>	<b>1,509</b>
<b>Fund balances, end of year</b>	<b>\$ 87,458</b>	<b>\$ 14,130</b>	<b>\$ 3,044</b>	<b>\$ 4,879</b>



State of Kansas  
**Other Supplementary Information**  
June 30, 2016

**Combining Statement of Revenues, Expenditures, and Changes  
in Fund Balances - Nonmajor Governmental Funds - Continued**  
**For the Fiscal Year Ended June 30, 2016**  
*(expressed in thousands)*

	Special Revenue Funds			
	Agriculture	Attorney General	Administration	Highway Patrol
<b>Revenues:</b>				
Property tax	\$ 0	\$ 0	\$ 0	\$ 0
Income and inheritance tax	0	0	0	0
Sales and excise tax	0	1,000	0	3,037
Gross receipts tax	0	0	0	0
Charges for services	19,446	15,367	3,272	10,841
Operating grants	7,465	6,228	297	11,560
Capital grants	0	0	0	0
Investment earnings	2	12	12	12
Other revenues	1,162	3,390	16,737	142
<b>Total revenues</b>	<b>28,075</b>	<b>25,997</b>	<b>20,318</b>	<b>25,592</b>
<b>Expenditures:</b>				
Current:				
General government	0	15,184	263,250	0
Human resources	0	0	0	0
Education	0	0	764,682	0
Public safety	0	14,799	0	79,886
Agriculture and natural resources	28,958	0	0	0
Highways and other transportation	0	0	0	0
Health and environment	0	0	0	0
Debt service:				
Principal	289	0	13,440	0
Interest	448	0	51,365	0
<b>Total expenditures</b>	<b>29,695</b>	<b>29,983</b>	<b>1,092,737</b>	<b>79,886</b>
<b>Excess of revenues over (under) expenditures</b>	<b>(1,620)</b>	<b>(3,986)</b>	<b>(1,072,419)</b>	<b>(54,294)</b>
<b>Other financing sources (uses):</b>				
Issuance of bonds	0	0	1,005,180	0
Issuance of notes payable	0	0	0	0
Issuance of capital leases	0	0	0	0
Premium on issuance of debt	0	0	0	0
Issuance of refunding bonds	0	0	0	0
Premium on issuance of refunding debt	0	0	0	0
Payment to refunded bond escrow agent	0	0	0	0
Transfers, net	817	3,452	65,127	55,959
<b>Total other financing sources (uses)</b>	<b>817</b>	<b>3,452</b>	<b>1,070,307</b>	<b>55,959</b>
<b>Net change in fund balances</b>	<b>(803)</b>	<b>(534)</b>	<b>(2,112)</b>	<b>1,665</b>
<b>Fund balances, beginning of year</b>	<b>11,635</b>	<b>24,174</b>	<b>3,579</b>	<b>18,871</b>
<b>Fund balances, end of year</b>	<b>\$ 10,832</b>	<b>\$ 23,640</b>	<b>\$ 1,467</b>	<b>\$ 20,536</b>

State of Kansas  
**Other Supplementary Information**  
June 30, 2016

**Combining Statement of Revenues, Expenditures, and Changes  
in Fund Balances - Nonmajor Governmental Funds - Continued  
For the Fiscal Year Ended June 30, 2016  
(expressed in thousands)**

	Special Revenue Funds			
	Historical Society	Labor	Commerce	Insurance
<b>Revenues:</b>				
Property tax	\$ 0	\$ 0	\$ 0	\$ 0
Income and inheritance tax	0	0	24,125	0
Sales and excise tax	909	0	0	0
Gross receipts tax	0	0	36	13,678
Charges for services	747	1,411	103	14,822
Operating grants	866	24,618	47,849	117
Capital grants	10	0	0	0
Investment earnings	10	0	747	0
Other revenues	19	11,567	2,026	22
<b>Total revenues</b>	<u>2,561</u>	<u>37,596</u>	<u>74,886</u>	<u>28,639</u>
<b>Expenditures:</b>				
Current:				
General government	0	0	80,690	22,062
Human resources	0	35,654	0	0
Education	3,367	0	4,099	0
Public safety	0	0	0	0
Agriculture and natural resources	0	0	0	0
Highways and other transportation	0	0	0	0
Health and environment	0	0	0	0
Debt service:				
Principal	0	0	17,360	0
Interest	0	0	7,177	0
<b>Total expenditures</b>	<u>3,367</u>	<u>35,654</u>	<u>109,326</u>	<u>22,062</u>
<b>Excess of revenues over (under) expenditures</b>	<u>(806)</u>	<u>1,942</u>	<u>(34,440)</u>	<u>6,577</u>
<b>Other financing sources (uses):</b>				
Issuance of bonds	0	0	0	0
Issuance of notes payable	0	0	0	0
Issuance of capital leases	0	0	0	0
Premium on issuance of debt	0	0	0	0
Issuance of refunding bonds	0	0	0	0
Premium on issuance of refunding debt	0	0	0	0
Payment to refunded bond escrow agent	0	0	0	0
Transfers, net	8	(2,967)	17,566	(8,000)
<b>Total other financing sources (uses)</b>	<u>8</u>	<u>(2,967)</u>	<u>17,566</u>	<u>(8,000)</u>
<b>Net change in fund balances</b>	<u>(798)</u>	<u>(1,025)</u>	<u>(16,874)</u>	<u>(1,423)</u>
<b>Fund balances, beginning of year</b>	<u>6,754</u>	<u>32,250</u>	<u>89,712</u>	<u>12,390</u>
<b>Fund balances, end of year</b>	<u>\$ 5,956</u>	<u>\$ 31,225</u>	<u>\$ 72,838</u>	<u>\$ 10,967</u>

State of Kansas  
**Other Supplementary Information**  
June 30, 2016

**Combining Statement of Revenues, Expenditures, and Changes  
in Fund Balances - Nonmajor Governmental Funds - Continued**  
**For the Fiscal Year Ended June 30, 2016**  
*(expressed in thousands)*

	Special Revenue Funds			
	Judicial	State Library	Revenue	Secretary of State
<b>Revenues:</b>				
Property tax	\$ 0	\$ 0	\$ 0	\$ 0
Income and inheritance tax	0	0	0	0
Sales and excise tax	0	0	8,084	0
Gross receipts tax	0	0	334	0
Charges for services	34,643	0	20,767	4,171
Operating grants	511	1,760	738	0
Capital grants	0	0	0	0
Investment earnings	12	0	0	14
Other revenues	1,253	163	395	0
<b>Total revenues</b>	<b>36,419</b>	<b>1,923</b>	<b>30,318</b>	<b>4,185</b>
<b>Expenditures:</b>				
Current:				
General government	30,865	0	81,530	4,592
Human resources	0	0	0	0
Education	0	1,856	0	0
Public safety	0	0	0	0
Agriculture and natural resources	0	0	0	0
Highways and other transportation	0	0	0	0
Health and environment	0	0	0	0
Debt service:				
Principal	0	0	56	0
Interest	0	0	162	0
<b>Total expenditures</b>	<b>30,865</b>	<b>1,856</b>	<b>81,748</b>	<b>4,592</b>
<b>Excess of revenues over (under) expenditures</b>	<b>5,554</b>	<b>67</b>	<b>(51,430)</b>	<b>(407)</b>
<b>Other financing sources (uses):</b>				
Issuance of bonds	0	0	0	0
Issuance of notes payable	0	0	0	0
Issuance of capital leases	0	0	7,092	0
Premium on issuance of debt	0	0	0	0
Issuance of refunding bonds	0	0	0	0
Premium on issuance of refunding debt	0	0	0	0
Payment to refunded bond escrow agent	0	0	0	0
Transfers, net	200	232	36,362	0
<b>Total other financing sources (uses)</b>	<b>200</b>	<b>232</b>	<b>43,454</b>	<b>0</b>
<b>Net change in fund balances</b>	<b>5,754</b>	<b>299</b>	<b>(7,976)</b>	<b>(407)</b>
<b>Fund balances, beginning of year</b>	<b>10,910</b>	<b>774</b>	<b>18,245</b>	<b>6,351</b>
<b>Fund balances, end of year</b>	<b>\$ 16,664</b>	<b>\$ 1,073</b>	<b>\$ 10,269</b>	<b>\$ 5,944</b>

State of Kansas  
**Other Supplementary Information**  
June 30, 2016

**Combining Statement of Revenues, Expenditures, and Changes  
in Fund Balances - Nonmajor Governmental Funds - Continued**  
**For the Fiscal Year Ended June 30, 2016**  
*(expressed in thousands)*

	Special Revenue Funds			
	State Treasurer	Wildlife, Parks and Tourism	Executive	Legislative
<b>Revenues:</b>				
Property tax	\$ 0	\$ 0	\$ 0	\$ 0
Income and inheritance tax	0	0	0	0
Sales and excise tax	0	936	0	0
Gross receipts tax	0	0	0	0
Charges for services	871	45,461	0	52
Operating grants	0	19,574	11,573	0
Capital grants	0	0	0	0
Investment earnings	3,470	43	6	0
Other revenues	27,130	37	86	0
<b>Total revenues</b>	<b>31,471</b>	<b>66,051</b>	<b>11,665</b>	<b>52</b>
<b>Expenditures:</b>				
Current:				
General government	27,798	0	11,666	21
Human resources	0	0	0	0
Education	0	0	0	0
Public safety	0	0	0	0
Agriculture and natural resources	0	66,397	0	0
Highways and other transportation	0	0	0	0
Health and environment	0	0	0	0
Debt service:				
Principal	0	65	0	0
Interest	0	76	0	0
<b>Total expenditures</b>	<b>27,798</b>	<b>66,538</b>	<b>11,666</b>	<b>21</b>
<b>Excess of revenues over (under) expenditures</b>	<b>3,673</b>	<b>(487)</b>	<b>(1)</b>	<b>31</b>
<b>Other financing sources (uses):</b>				
Issuance of bonds	0	0	0	0
Issuance of notes payable	0	0	0	0
Issuance of capital leases	0	0	0	0
Premium on issuance of debt	0	0	0	0
Issuance of refunding bonds	0	0	0	0
Premium on issuance of refunding debt	0	0	0	0
Payment to refunded bond escrow agent	0	0	0	0
Transfers, net	(3,100)	9,398	45	0
<b>Total other financing sources (uses)</b>	<b>(3,100)</b>	<b>9,398</b>	<b>45</b>	<b>0</b>
<b>Net change in fund balances</b>	<b>573</b>	<b>8,911</b>	<b>44</b>	<b>31</b>
<b>Fund balances, beginning of year</b>	<b>1,960</b>	<b>31,180</b>	<b>1,596</b>	<b>11</b>
<b>Fund balances, end of year</b>	<b>\$ 2,533</b>	<b>\$ 40,091</b>	<b>\$ 1,640</b>	<b>\$ 42</b>

State of Kansas  
**Other Supplementary Information**  
June 30, 2016

**Combining Statement of Revenues, Expenditures, and Changes  
in Fund Balances - Nonmajor Governmental Funds - Continued**  
**For the Fiscal Year Ended June 30, 2016**  
*(expressed in thousands)*

	Special Revenue Funds			Capital Projects Funds
	Transportation- Special Revenue	State Water Plan	Peace Officer Training	Transportation-Capital Projects
<b>Revenues:</b>				
Property tax	\$ 0	\$ 0	\$ 0	\$ 0
Income and inheritance tax	0	0	0	0
Sales and excise tax	0	2,658	0	0
Gross receipts tax	0	0	0	0
Charges for services	0	5,226	519	0
Operating grants	4,834	0	0	0
Capital grants	0	0	0	0
Investment earnings	154	0	0	121
Other revenues	3,017	4,072	208	0
<b>Total revenues</b>	<b>8,005</b>	<b>11,956</b>	<b>727</b>	<b>121</b>
<b>Expenditures:</b>				
Current:				
General government	0	0	0	0
Human resources	0	0	0	0
Education	0	26	0	0
Public safety	0	0	743	0
Agriculture and natural resources	0	10,849	0	0
Highways and other transportation	21,451	0	0	0
Health and environment	0	2,018	0	0
Debt service:				
Principal	0	0	0	0
Interest	0	0	0	0
<b>Total expenditures</b>	<b>21,451</b>	<b>12,893</b>	<b>743</b>	<b>0</b>
<b>Excess of revenues over (under) expenditures</b>	<b>(13,446)</b>	<b>(937)</b>	<b>(16)</b>	<b>121</b>
<b>Other financing sources (uses):</b>				
Issuance of bonds	0	0	0	400,000
Issuance of notes payable	0	0	0	0
Issuance of capital leases	0	0	0	0
Premium on issuance of debt	0	0	0	122,880
Issuance of refunding bonds	0	0	0	190,875
Premium on issuance of refunding debt	0	0	0	0
Payment to refunded bond escrow agent	0	0	0	(223,778)
Transfers, net	21,012	(1,443)	0	(490,097)
<b>Total other financing sources (uses)</b>	<b>21,012</b>	<b>(1,443)</b>	<b>0</b>	<b>(120)</b>
<b>Net change in fund balances</b>	<b>7,566</b>	<b>(2,380)</b>	<b>(16)</b>	<b>1</b>
<b>Fund balances, beginning of year</b>	<b>39,833</b>	<b>10,149</b>	<b>621</b>	<b>(147,000)</b>
<b>Fund balances, end of year</b>	<b>\$ 47,399</b>	<b>\$ 7,769</b>	<b>\$ 605</b>	<b>\$ (146,999)</b>

State of Kansas  
**Other Supplementary Information**  
June 30, 2016

**Combining Statement of Revenues, Expenditures, and Changes  
in Fund Balances - Nonmajor Governmental Funds - Continued**  
**For the Fiscal Year Ended June 30, 2016**  
*(expressed in thousands)*

	Capital Projects Funds			Debt Service Funds
	State Buildings (Appropriated)	Capitol Complex Buildings	State Library	Master Lease Program
<b>Revenues:</b>				
Property tax	\$ 53,610	\$ 0	\$ 0	\$ 0
Income and inheritance tax	0	0	0	0
Sales and excise tax	0	0	0	0
Gross receipts tax	0	0	0	0
Charges for services	7	0	0	0
Operating grants	0	0	0	0
Capital grants	0	0	0	0
Investment earnings	0	12	0	8
Other revenues	0	0	0	2,122
<b>Total revenues</b>	<b>53,617</b>	<b>12</b>	<b>0</b>	<b>2,130</b>
<b>Expenditures:</b>				
Current:				
General government	479	167	0	2,146
Human resources	5,678	0	0	0
Education	41,979	0	0	0
Public safety	4,814	0	0	0
Agriculture and natural resources	0	0	0	0
Highways and other transportation	0	0	0	0
Health and environment	0	0	0	0
Debt service:				
Principal	0	23,820	0	5,445
Interest	0	5,453	0	655
<b>Total expenditures</b>	<b>52,950</b>	<b>29,440</b>	<b>0</b>	<b>8,246</b>
<b>Excess of revenues over (under) expenditures</b>	<b>667</b>	<b>(29,428)</b>	<b>0</b>	<b>(6,116)</b>
<b>Other financing sources (uses):</b>				
Issuance of bonds	0	16,600	0	0
Issuance of notes payable	0	0	0	0
Issuance of capital leases	0	0	0	2,449
Premium on issuance of debt	0	0	0	0
Issuance of refunding bonds	0	0	0	0
Premium on issuance of refunding debt	0	0	0	0
Payment to refunded bond escrow agent	0	0	0	0
Transfers, net	(6,064)	12,823	(232)	0
<b>Total other financing sources (uses)</b>	<b>(6,064)</b>	<b>29,423</b>	<b>(232)</b>	<b>2,449</b>
<b>Net change in fund balances</b>	<b>(5,397)</b>	<b>(5)</b>	<b>(232)</b>	<b>(3,667)</b>
<b>Fund balances, beginning of year</b>	<b>44,697</b>	<b>43</b>	<b>232</b>	<b>24,557</b>
<b>Fund balances, end of year</b>	<b>\$ 39,300</b>	<b>\$ 38</b>	<b>\$ 0</b>	<b>\$ 20,890</b>

State of Kansas  
**Other Supplementary Information**  
June 30, 2016

**Combining Statement of Revenues, Expenditures, and Changes  
in Fund Balances - Nonmajor Governmental Funds - Continued**  
**For the Fiscal Year Ended June 30, 2016**  
*(expressed in thousands)*

	Debt Service Funds			
	Corrections	Pooled Funds	Armories	Public Broadcasting Digital
<b>Revenues:</b>				
Property tax	\$ 0	\$ 0	\$ 0	\$ 0
Income and inheritance tax	0	0	0	0
Sales and excise tax	0	0	0	0
Gross receipts tax	0	0	0	0
Charges for services	0	0	0	0
Operating grants	0	0	0	0
Capital grants	0	0	0	0
Investment earnings	0	0	0	0
Other revenues	0	0	0	0
<b>Total revenues</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Expenditures:</b>				
Current:				
General government	0	0	4	9
Human resources	0	0	0	0
Education	0	0	0	0
Public safety	0	0	0	0
Agriculture and natural resources	0	0	0	0
Highways and other transportation	0	0	0	0
Health and environment	0	0	0	0
Debt service:				
Principal	4,075	9,290	870	0
Interest	1,062	7,079	377	0
<b>Total expenditures</b>	<u>5,137</u>	<u>16,369</u>	<u>1,251</u>	<u>9</u>
<b>Excess of revenues over (under) expenditures</b>	<u>(5,137)</u>	<u>(16,369)</u>	<u>(1,251)</u>	<u>(9)</u>
<b>Other financing sources (uses):</b>				
Issuance of bonds	0	0	0	0
Issuance of notes payable	0	0	0	0
Issuance of capital leases	0	0	0	0
Premium on issuance of debt	0	0	0	0
Issuance of refunding bonds	0	0	0	0
Premium on issuance of refunding debt	0	0	0	0
Payment to refunded bond escrow agent	0	0	0	0
Transfers, net	5,137	16,369	1,248	0
<b>Total other financing sources (uses)</b>	<u>5,137</u>	<u>16,369</u>	<u>1,248</u>	<u>0</u>
<b>Net change in fund balances</b>	<u>0</u>	<u>0</u>	<u>(3)</u>	<u>(9)</u>
<b>Fund balances, beginning of year</b>	<u>14</u>	<u>0</u>	<u>44</u>	<u>9</u>
<b>Fund balances, end of year</b>	<u>\$ 14</u>	<u>\$ 0</u>	<u>\$ 41</u>	<u>\$ 0</u>

State of Kansas  
**Other Supplementary Information**  
June 30, 2016

**Combining Statement of Revenues, Expenditures, and Changes  
in Fund Balances - Nonmajor Governmental Funds - Continued**  
**For the Fiscal Year Ended June 30, 2016**  
*(expressed in thousands)*

	Debt Service Funds			
	Vital Statistics Project	Highway Patrol	Labor	Bond and Interest
<b>Revenues:</b>				
Property tax	\$ 0	\$ 0	\$ 0	\$ 0
Income and inheritance tax	0	0	0	0
Sales and excise tax	0	0	0	0
Gross receipts tax	0	0	0	0
Charges for services	0	0	0	0
Operating grants	0	0	0	0
Capital grants	0	0	0	0
Investment earnings	0	0	0	149
Other revenues	0	0	0	0
<b>Total revenues</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>149</u>
<b>Expenditures:</b>				
Current:				
General government	0	0	0	0
Human resources	0	0	211	0
Education	0	0	0	0
Public safety	0	325	0	0
Agriculture and natural resources	0	0	0	8,946
Highways and other transportation	0	0	0	0
Health and environment	0	0	0	0
Debt service:				
Principal	0	0	0	9,150
Interest	0	45	72	26,580
<b>Total expenditures</b>	<u>0</u>	<u>370</u>	<u>283</u>	<u>44,676</u>
<b>Excess of revenues over (under) expenditures</b>	<u>0</u>	<u>(370)</u>	<u>(283)</u>	<u>(44,527)</u>
<b>Other financing sources (uses):</b>				
Issuance of bonds	0	0	0	0
Issuance of notes payable	0	0	0	0
Issuance of capital leases	0	0	0	0
Premium on issuance of debt	0	0	0	0
Issuance of refunding bonds	0	0	0	0
Premium on issuance of refunding debt	0	0	0	0
Payment to refunded bond escrow agent	0	0	0	0
Transfers, net	0	370	277	35,407
<b>Total other financing sources (uses)</b>	<u>0</u>	<u>370</u>	<u>277</u>	<u>35,407</u>
<b>Net change in fund balances</b>	<u>0</u>	<u>0</u>	<u>(6)</u>	<u>(9,120)</u>
<b>Fund balances, beginning of year</b>	<u>1</u>	<u>0</u>	<u>6</u>	<u>20,207</u>
<b>Fund balances, end of year</b>	<u>\$ 1</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 11,087</u>



State of Kansas  
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June 30, 2016

**Combining Statement of Revenues, Expenditures, and Changes  
in Fund Balances - Nonmajor Governmental Funds - Concluded  
For the Fiscal Year Ended June 30, 2016**  
*(expressed in thousands)*

	Debt Service Funds	
	Highway Debt Service	Total Nonmajor Governmental
<b>Revenues:</b>		
Property tax	\$ 0	\$ 53,610
Income and inheritance tax	0	24,125
Sales and excise tax	0	16,624
Gross receipts tax	0	21,155
Charges for services	0	421,466
Operating grants	0	190,080
Capital grants	0	190
Investment earnings	281	5,189
Other revenues	0	79,812
<b>Total revenues</b>	<b>281</b>	<b>812,251</b>
<b>Expenditures:</b>		
Current:		
General government	0	646,881
Human resources	0	88,784
Education	0	829,328
Public safety	0	209,301
Agriculture and natural resources	0	123,307
Highways and other transportation	0	21,451
Health and environment	0	8,953
Debt service:		
Principal	112,050	196,993
Interest	79,065	180,548
<b>Total expenditures</b>	<b>191,115</b>	<b>2,305,546</b>
<b>Excess of revenues over (under) expenditures</b>	<b>(190,834)</b>	<b>(1,493,295)</b>
<b>Other financing sources (uses):</b>		
Issuance of bonds	0	1,421,780
Issuance of notes payable	0	0
Issuance of capital leases	0	9,541
Premium on issuance of debt	0	122,880
Issuance of refunding bonds	0	190,875
Premium on issuance of refunding debt	0	0
Payment to refunded bond escrow agent	0	(223,778)
Transfers, net	199,707	(71,800)
<b>Total other financing sources (uses)</b>	<b>199,707</b>	<b>1,449,498</b>
<b>Net change in fund balances</b>	<b>8,873</b>	<b>(43,797)</b>
<b>Fund balances, beginning of year</b>	<b>113,946</b>	<b>511,989</b>
<b>Fund balances, end of year</b>	<b>\$ 122,819</b>	<b>\$ 468,192</b>

**Listing of Non-Major Proprietary Funds**

**Enterprise Funds**

Enterprise funds may be used to report any activity for which a fee for goods or services is charged external users. Enterprise funds are (1) required for any activity that operates under laws or regulations that its costs be recovered with fees and charges, rather than with taxes or similar revenues, (2) required for any activity for which management establishes fees, pursuant to its pricing policy, designed to recover its costs of providing services, and (3) required for activity that is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity:

Workers' Compensation  
Lottery  
Intergovernmental Transfer Program  
Transportation Revolving Fund  
Communication Systems Revolving Fund

State of Kansas  
**Other Supplementary Information**  
June 30, 2016

**Combining Statement of Net Position - Nonmajor Proprietary Funds**

**June 30, 2016**

*(expressed in thousands)*

	Business-Type Activities					
	Workers Compensa- tion	Lottery	Intergovern- mental Transfer Program	Transporta- tion Revolving Fund	Communica- tion Systems Revolving Fund	Total
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$ 10,608	\$ 5,683	\$ 165	\$ 19,910	\$ 2,844	\$ 39,210
Restricted cash and cash equivalents	0	0	0	20,535	0	20,535
Receivables, net	12	10,857	0	5,382	447	16,698
Inventories	0	3,410	0	0	0	3,410
Total current assets	10,620	19,950	165	45,827	3,291	79,853
Noncurrent assets:						
Investments	0	0	0	15,277	0	15,277
Receivables, net	0	0	0	25,311	1,317	26,628
Capital assets (net of accumulated depreciation)	0	655	8	0	0	663
Total noncurrent assets	0	655	8	40,588	1,317	42,568
<b>Total assets</b>	<b>10,620</b>	<b>20,605</b>	<b>173</b>	<b>86,415</b>	<b>4,608</b>	<b>122,421</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Deferred outflows - pensions	0	909	0	0	0	909
<b>LIABILITIES</b>						
Current liabilities:						
Accounts payable and other liabilities	\$ 14	\$ 14,879	\$ 0	\$ 259	\$ 9	\$ 15,161
Due to other funds	0	5,411	0	0	0	5,411
Short-term compensated absences	6	0	0	0	0	6
Short-term portion of long-term liabilities	7,074	0	0	3,725	219	11,018
Total current liabilities	7,094	20,290	0	3,984	228	31,596
Noncurrent liabilities:						
Compensated absences	1	0	0	0	0	1
Claims and judgments	28,060	0	0	0	0	28,060
Bonds, notes and loans payable	0	0	0	22,986	568	23,554
Unearned lease revenue	0	0	0	0	819	819
Arbitrage rebate payable	0	0	0	340	0	340
Other noncurrent liabilities	0	6,496	0	0	0	6,496
Total noncurrent liabilities	28,061	6,496	0	23,326	1,387	59,270
<b>Total liabilities</b>	<b>35,155</b>	<b>26,786</b>	<b>0</b>	<b>27,310</b>	<b>1,615</b>	<b>90,866</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Deferred inflows - pensions	0	630	0	0	0	630
<b>NET POSITION</b>						
Net investment in capital assets	0	655	8	0	0	663
Restricted for:						
Debt service	0	0	0	39,195	0	39,195
Unrestricted	(24,535)	(6,557)	165	19,910	2,993	(8,024)
<b>Total net position</b>	<b>\$ (24,535)</b>	<b>\$ (5,902)</b>	<b>\$ 173</b>	<b>\$ 59,105</b>	<b>\$ 2,993</b>	<b>\$ 31,834</b>

State of Kansas  
**Other Supplementary Information**  
June 30, 2016

**Combining Statement of Revenues, Expenses, and Changes in  
Fund Net Position - Nonmajor Proprietary Funds  
For the Fiscal Year Ended June 30, 2016**  
*(expressed in thousands)*

	Business-Type Activities					Total
	Workers Compensa- tion	Lottery	Intergovern- mental Transfer Program	Transporta- tion Revolving Fund	Communica- tion Systems Revolving Fund	
<b>Operating revenues:</b>						
Charges for services	\$ 3,647	\$ 636,389	\$ 0	\$ 76	\$ 232	\$ 640,344
Other revenue	66	10,107	62	1,077	0	11,312
<b>Total operating revenues</b>	<u>3,713</u>	<u>646,496</u>	<u>62</u>	<u>1,153</u>	<u>232</u>	<u>651,656</u>
<b>Operating expenses:</b>						
Personal services	178	5,910	0	0	0	6,088
Supplies and services	1,212	290,569	343	11	15	292,150
Lottery prize awards	0	157,301	0	0	0	157,301
Depreciation	0	317	3	0	0	320
Insurance claims and expenses	1,146	0	0	0	0	1,146
Other expenses	1,189	21,763	0	130	0	23,082
<b>Total operating expenses</b>	<u>3,725</u>	<u>475,860</u>	<u>346</u>	<u>141</u>	<u>15</u>	<u>480,087</u>
<b>Operating income (loss)</b>	<u>(12)</u>	<u>170,636</u>	<u>(284)</u>	<u>1,012</u>	<u>217</u>	<u>171,569</u>
<b>Nonoperating revenues (expenses):</b>						
Investment earnings	0	0	91	850	11	952
Interest expense	0	0	0	(981)	(45)	(1,026)
<b>Total nonoperating revenues (expenses)</b>	<u>0</u>	<u>0</u>	<u>91</u>	<u>(131)</u>	<u>(34)</u>	<u>(74)</u>
<b>Net income (loss)</b>	<u>(12)</u>	<u>170,636</u>	<u>(193)</u>	<u>881</u>	<u>183</u>	<u>171,495</u>
Transfers out	0	(171,823)	0	0	0	(171,823)
Change in net position	(12)	(1,187)	(193)	881	183	(328)
Net position - beginning	(24,523)	(4,715)	366	58,224	2,810	32,162
<b>Net position - ending</b>	<u>\$ (24,535)</u>	<u>\$ (5,902)</u>	<u>\$ 173</u>	<u>\$ 59,105</u>	<u>\$ 2,993</u>	<u>\$ 31,834</u>

### **Internal Service Funds**

Internal Service Funds are used to report any activity that provides goods or services to other funds, departments, or agencies of the primary government and its component units, or to other governments, on a cost-reimbursement basis:

Printing  
Accounting Services  
Motor Pool  
Information Technology  
Aircraft  
Building Maintenance  
Architectural Services  
State Workers' Compensation  
Capitol Security  
Osawatomie Motor Pool  
Wildlife  
Personnel Services  
GIS Services

State of Kansas  
**Other Supplementary Information**  
June 30, 2016

**Combining Statement of Net Position - Internal Service Funds**

**June 30, 2016**

(expressed in thousands)

	Printing	Accounting Services	Motor Pool	Information Technology	Aircraft	Building Maintenance	Architectural Services
<b>ASSETS</b>							
Current assets:							
Cash and cash equivalents	\$ 1,049	\$ 5,757	\$ 672	\$ 6,723	\$ 14	\$ 14,506	\$ 3,051
Cash and cash equivalents, restricted	0	29,941	0	0	0	0	0
Receivables, net	155	9	0	5,521	1	6	0
Inventories	0	0	779	7,379	0	339	0
Total current assets	1,204	35,707	1,451	19,623	15	14,851	3,051
Noncurrent assets:							
Capital assets not being depreciated	0	0	0	0	0	460	0
Capital assets (net of accumulated depreciation)	1,531	12,770	226	7,100	0	58,069	106
Total noncurrent assets	1,531	12,770	226	7,100	0	58,529	106
<b>Total assets</b>	<b>2,735</b>	<b>48,477</b>	<b>1,677</b>	<b>26,723</b>	<b>15</b>	<b>73,380</b>	<b>3,157</b>
<b>LIABILITIES</b>							
Current liabilities:							
Accounts payable and other liabilities	301	442	16	1,164	12	1,162	156
Due to other funds	0	0	24	1,090	0	0	0
Short-term compensated absences	132	299	0	429	0	322	85
Short-term portion of long-term liabilities	0	29,873	0	0	0	1,797	0
Total current liabilities	433	30,614	40	2,683	12	3,281	241
Noncurrent liabilities:							
Compensated absences	27	62	0	89	0	67	18
Claims and judgments	0	68	0	0	0	0	0
Bonds, notes and loans payable	0	0	0	0	0	38,573	0
Advances from other funds	0	0	8	1,759	0	0	0
Total noncurrent liabilities	27	130	8	1,848	0	38,640	18
<b>Total liabilities</b>	<b>460</b>	<b>30,744</b>	<b>48</b>	<b>4,531</b>	<b>12</b>	<b>41,921</b>	<b>259</b>
<b>NET POSITION</b>							
Net investment in capital assets	1,531	12,770	226	7,100	0	18,159	106
Unrestricted	744	4,963	1,403	15,092	3	13,300	2,792
<b>Total net position</b>	<b>\$ 2,275</b>	<b>\$ 17,733</b>	<b>\$ 1,629</b>	<b>\$ 22,192</b>	<b>\$ 3</b>	<b>\$ 31,459</b>	<b>\$ 2,898</b>

State of Kansas  
**Other Supplementary Information**  
June 30, 2016

**Combining Statement of Net Position - Internal Service Funds - Concluded**

**June 30, 2016**

(expressed in thousands)

	State Workers Compensation	Capitol Security	Osawatomie Motor Pool	Wildlife	Personnel Services	GIS Services	Total
<b>ASSETS</b>							
Current assets:							
Cash and cash equivalents	\$ 12,945	\$ 454	\$ 77	\$ 89	\$ 22	\$ 167	\$ 45,526
Cash and cash equivalents, restricted	0	0	0	0	0	0	29,941
Receivables, net	0	0	0	0	0	44	5,736
Inventories	0	0	0	0	0	0	8,497
Total current assets	<u>12,945</u>	<u>454</u>	<u>77</u>	<u>89</u>	<u>22</u>	<u>211</u>	<u>89,700</u>
Noncurrent assets:							
Infrastructure	0	0	0	0	0	0	460
Capital assets (net of accumulated depreciation)	0	0	0	0	0	0	79,802
Total noncurrent assets	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>80,262</u>
<b>Total assets</b>	<u>12,945</u>	<u>454</u>	<u>77</u>	<u>89</u>	<u>22</u>	<u>211</u>	<u>169,962</u>
<b>LIABILITIES</b>							
Current liabilities:							
Accounts payable and other liabilities	254	40	0	0	0	0	3,547
Due to other funds	0	0	0	0	0	0	1,114
Short-term compensated absences	42	6	0	0	0	0	1,315
Short-term portion of long-term liabilities	12,303	0	0	0	0	0	43,973
Total current liabilities	<u>12,599</u>	<u>46</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>49,949</u>
Noncurrent liabilities:							
Compensated absences	9	1	0	0	0	0	273
Claims and judgements	41,742	0	0	0	0	0	41,810
Bonds, notes and loans payable	0	0	0	0	0	0	38,573
Advances from other funds	0	0	0	0	0	0	1,767
Total noncurrent liabilities	<u>41,751</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>82,423</u>
<b>Total liabilities</b>	<u>54,350</u>	<u>47</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>132,372</u>
<b>NET POSITION</b>							
Net investment in capital assets	0	0	0	0	0	0	39,892
Unrestricted	(41,405)	407	77	89	22	211	(2,302)
<b>Total net position</b>	<u>\$ (41,405)</u>	<u>\$ 407</u>	<u>\$ 77</u>	<u>\$ 89</u>	<u>\$ 22</u>	<u>\$ 211</u>	<u>\$ 37,590</u>

State of Kansas  
**Other Supplementary Information**  
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**Combining Statement of Revenues, Expenses, and Changes in  
Fund Net Position - Internal Service Funds  
For the Fiscal Year Ended June 30, 2016**  
*(expressed in thousands)*

	Printing	Accounting Services	Motor Pool	Information Technology	Aircraft	Building Maintenance	Architectural Services
<b>Operating revenues:</b>							
Charges for services	\$ 8,439	\$ 13,187	\$ 336	\$ 42,289	\$ 101	\$ 24,654	\$ 1,740
Other revenue	0	1,115	1,330	0	0	2,331	0
<b>Total operating revenues</b>	<u>8,439</u>	<u>14,302</u>	<u>1,666</u>	<u>42,289</u>	<u>101</u>	<u>26,985</u>	<u>1,740</u>
<b>Operating expenses:</b>							
Salaries and wages	2,297	5,128	0	8,020	0	7,458	1,550
Supplies and services	5,443	7,916	929	26,877	98	9,792	436
Depreciation	262	5,157	33	2,659	0	1,423	25
Insurance claims and expenses	0	0	0	0	0	0	0
Other expenses	0	6	0	75	0	8	0
<b>Total operating expenses</b>	<u>8,002</u>	<u>18,207</u>	<u>962</u>	<u>37,631</u>	<u>98</u>	<u>18,681</u>	<u>2,011</u>
<b>Operating income (loss)</b>	<u>437</u>	<u>(3,905)</u>	<u>704</u>	<u>4,658</u>	<u>3</u>	<u>8,304</u>	<u>(271)</u>
<b>Nonoperating revenues (expenses):</b>							
Investment earnings	0	0	0	0	0	0	0
Interest expense	0	0	0	0	0	(1,873)	0
Other expenses	0	0	0	0	0	(2)	(1)
<b>Total nonoperating revenues (expenses)</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(1,875)</u>	<u>(1)</u>
<b>Net income (loss)</b>	<u>437</u>	<u>(3,905)</u>	<u>704</u>	<u>4,658</u>	<u>3</u>	<u>6,429</u>	<u>(272)</u>
Transfers in	102	754	1,194	3,747	0	1,965	0
Transfers out	(211)	(191)	(1,020)	(1,996)	0	(6,413)	(46)
<b>Change in net position</b>	<u>328</u>	<u>(3,342)</u>	<u>878</u>	<u>6,409</u>	<u>3</u>	<u>1,981</u>	<u>(318)</u>
Net position - beginning	1,947	(8,866)	751	15,783	0	29,478	3,216
Revisions to beginning net position	0	29,941	0	0	0	0	0
Total net position - beginning (restated)	<u>1,947</u>	<u>21,075</u>	<u>751</u>	<u>15,783</u>	<u>0</u>	<u>29,478</u>	<u>3,216</u>
<b>Net position - ending</b>	<u>\$ 2,275</u>	<u>\$ 17,733</u>	<u>\$ 1,629</u>	<u>\$ 22,192</u>	<u>\$ 3</u>	<u>\$ 31,459</u>	<u>\$ 2,898</u>



State of Kansas  
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**Combining Statement of Revenues, Expenses, and Changes in  
Fund Net Position - Internal Service Funds - Concluded  
For the Fiscal Year Ended June 30, 2016**  
*(expressed in thousands)*

	State Workers Compensation	Capitol Security	Osawatomie Motor Pool	Wildlife	Personnel Services	GIS Services	Total
<b>Operating revenues:</b>							
Charges for services	\$ 0	\$ 246	\$ 0	\$ 4	\$ 14	\$ 419	\$ 91,429
Other revenue	21,213	285	1	0	0	1,000	27,275
<b>Total operating revenues</b>	<u>21,213</u>	<u>531</u>	<u>1</u>	<u>4</u>	<u>14</u>	<u>1,419</u>	<u>118,704</u>
<b>Operating expenses:</b>							
Salaries and wages	1,050	378	0	0	0	0	25,881
Supplies and services	2,125	122	0	68	0	322	54,128
Depreciation	0	0	0	0	0	0	9,559
Insurance claims and expenses	18,423	0	0	0	0	0	18,423
Other expenses	6	0	0	0	0	0	95
<b>Total operating expenses</b>	<u>21,604</u>	<u>500</u>	<u>0</u>	<u>68</u>	<u>0</u>	<u>322</u>	<u>108,086</u>
<b>Operating income (loss)</b>	<u>(391)</u>	<u>31</u>	<u>1</u>	<u>(64)</u>	<u>14</u>	<u>1,097</u>	<u>10,618</u>
<b>Nonoperating revenues (expenses):</b>							
Investment earnings	45	0	0	0	0	0	45
Interest expense	0	0	0	0	0	0	(1,873)
Other expenses	(337)	0	0	0	0	0	(340)
<b>Total nonoperating revenues (expenses)</b>	<u>(292)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(2,168)</u>
<b>Net income (loss)</b>	<u>(683)</u>	<u>31</u>	<u>1</u>	<u>(64)</u>	<u>14</u>	<u>1,097</u>	<u>8,450</u>
Transfers in	0	0	0	0	0	0	7,762
Transfers out	0	(686)	0	(100)	0	(8,623)	(19,286)
<b>Change in net position</b>	<u>(683)</u>	<u>(655)</u>	<u>1</u>	<u>(164)</u>	<u>14</u>	<u>(7,526)</u>	<u>(3,074)</u>
Net position - beginning	(40,722)	1,062	76	253	8	7,737	10,723
Revisions to beginning net position	0	0	0	0	0	0	29,941
	<u>(40,722)</u>	<u>1,062</u>	<u>76</u>	<u>253</u>	<u>8</u>	<u>7,737</u>	<u>40,664</u>
<b>Net position - ending</b>	<u>\$ (41,405)</u>	<u>\$ 407</u>	<u>\$ 77</u>	<u>\$ 89</u>	<u>\$ 22</u>	<u>\$ 211</u>	<u>\$ 37,590</u>

**STATISTICAL  
SECTION**

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These schedules contain trend information to help the reader understand how the State's financial performance and well-being have changed over time.	
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These schedules contain information to help the reader assess the state's most significant revenue source, the income and sales taxes.	
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Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

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**Financial Trends**

**Net Position by Fund Type**

**Last Ten Fiscal Years**

*(expressed in thousands)*

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	<u>2007</u>	<u>2008</u>	<u>2009</u>
Governmental activities			
Net investment in capital assets	\$ 9,538,694	\$ 9,800,244	\$ 9,509,615
Restricted	93,923	87,640	143,946
Unrestricted	331,906	86,523	105,512
Total governmental activities net position	<u>\$ 9,964,523</u>	<u>\$ 9,974,407</u>	<u>\$ 9,759,073</u>
Business-type activities <sup>1</sup>			
Net investment in capital assets	\$ 256	\$ 364	\$ 478
Restricted	1,087,458	1,066,936	779,479
Unrestricted	6,768	18,330	(6,394)
Total business-type activities net position	<u>\$ 1,094,482</u>	<u>\$ 1,085,630</u>	<u>\$ 773,563</u>
Primary government			
Net investment in capital assets	\$ 9,538,950	\$ 9,800,608	\$ 9,510,093
Restricted	1,181,381	1,154,576	923,425
Unrestricted	338,674	104,853	99,118
Total primary government net position	<u>\$ 11,059,005</u>	<u>\$ 11,060,037</u>	<u>\$ 10,532,636</u>

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**Financial Trends**

**Net Position by Fund Type**

**Last Ten Fiscal Years**

*(expressed in thousands)*

2010	2011	2012	2013	2014	2015	2016
\$ 9,601,110	\$ 9,219,935	\$ 9,279,477	\$ 9,323,734	\$ 9,791,994	\$ 9,664,367	\$ 9,683,734
209,443	869,678	920,031	1,162,509	1,238,216	1,110,905	1,123,007
155,995	122,947	286,900	512,524	(45,468)	(2,041,601)	(3,127,429)
<u>\$ 9,966,548</u>	<u>\$ 10,212,560</u>	<u>\$ 10,486,408</u>	<u>\$ 10,998,767</u>	<u>\$ 10,984,742</u>	<u>\$ 8,733,671</u>	<u>\$ 7,679,312</u>
\$ 8,351	\$ 6,194	\$ 54,273	\$ 43,844	\$ 299	\$ 320	\$ 675
433,809	466,317	474,957	496,714	536,957	1,021,260	1,168,392
118,772	90,826	171,381	215,568	331,144	(6,523)	(8,024)
<u>\$ 560,932</u>	<u>\$ 563,337</u>	<u>\$ 700,611</u>	<u>\$ 756,126</u>	<u>\$ 868,400</u>	<u>\$ 1,015,057</u>	<u>\$ 1,161,043</u>
\$ 9,609,461	\$ 9,226,129	\$ 9,333,750	\$ 9,367,578	\$ 9,792,293	\$ 9,664,687	\$ 9,684,409
643,252	1,335,995	1,394,988	1,659,223	1,775,173	2,132,165	2,291,399
274,767	213,773	458,281	728,092	285,676	(2,048,124)	(3,135,453)
<u>\$ 10,527,480</u>	<u>\$ 10,775,897</u>	<u>\$ 11,187,019</u>	<u>\$ 11,754,893</u>	<u>\$ 11,853,142</u>	<u>\$ 9,748,728</u>	<u>\$ 8,840,355</u>

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**Financial Trends**

**Changes in Net Position Last Ten Fiscal Years**

*(expressed in thousands)*

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
<b>Expenses</b>				
Governmental activities:				
General government	\$ 1,074,391	\$ 1,002,719	\$ 955,701	\$ 851,373
Human resources	3,080,465	3,279,850	3,691,535	3,785,792
Education	4,696,343	5,011,242	5,183,287	5,028,780
Public safety	607,343	742,254	754,869	786,682
Agriculture and natural resources	102,471	111,445	126,940	109,672
Highways and other transportation	639,384	848,375	437,099	516,629
Health and environment	199,996	225,740	229,198	232,955
Economic development	3,125	251	0	0
Interest expense	149,550	145,246	151,702	144,125
Total governmental activities expenses	<u>10,553,068</u>	<u>11,367,122</u>	<u>11,530,331</u>	<u>11,456,008</u>
Business-type activities:				
Water pollution and safety	33,845	33,794	35,479	33,366
Health care stabilization	24,013	56,030	45,641	30,347
Employment security	245,910	277,545	735,844	1,381,286
Workers' compensation	4,342	5,050	4,511	4,540
Lottery	170,928	171,216	165,048	184,080
Intergovernmental transfer program	583	470	102	139
Transportation revolving loans	1,977	2,681	3,384	4,561
Total business-type activities expenses	<u>481,598</u>	<u>546,786</u>	<u>990,009</u>	<u>1,638,319</u>
Total primary government expenses	<u>\$ 11,034,666</u>	<u>\$ 11,913,908</u>	<u>\$ 12,520,340</u>	<u>\$ 13,094,327</u>
<b>Program Revenues</b>				
Governmental activities:				
General government	\$ 281,027	\$ 308,030	\$ 322,789	\$ 344,150
Human resources	2,099,064	2,163,300	2,609,468	2,839,446
Education	395,050	407,737	425,331	747,276
Public safety	165,609	255,683	266,768	350,512
Agriculture and natural resources	66,477	68,020	72,042	74,804
Highways and other transportation	697,979	697,233	579,323	690,597
Health and environment	122,938	139,367	138,245	159,009
Total governmental activities revenues	<u>3,828,144</u>	<u>4,039,370</u>	<u>4,413,966</u>	<u>5,205,794</u>
Business-type activities:				
Water pollution and safety	35,393	32,139	34,029	67,258
Health care stabilization	36,010	38,079	43,108	26,719
Employment security	275,733	224,745	220,886	310,145
Workers' compensation	7,395	5,508	4,049	3,148
Lottery	241,441	238,349	232,139	258,494
Intergovernmental transfer program	157	191	197	0
Transportation revolving fund	912	127	901	674
Total business-type activities revenues	<u>597,041</u>	<u>539,138</u>	<u>535,309</u>	<u>666,438</u>
Total primary government revenues	<u>\$ 4,425,185</u>	<u>\$ 4,578,508</u>	<u>\$ 4,949,275</u>	<u>\$ 5,872,232</u>
<b>Net (Expense) Revenue</b>				
Government activities	\$ (6,724,924)	\$ (7,327,752)	\$ (7,116,365)	\$ (6,250,214)
Business-type activities	115,443	(7,648)	(454,700)	(971,881)
Total primary net (expense) revenue	<u>\$ (6,609,481)</u>	<u>\$ (7,335,400)</u>	<u>\$ (7,571,065)</u>	<u>\$ (7,222,095)</u>

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**Changes in Net Position Last Ten Fiscal Years**  
(expressed in thousands)

<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
\$ 1,084,268	\$ 1,199,474	\$ 822,456	\$ 778,620	\$ 898,782	\$ 729,837
4,053,711	2,736,768	2,702,954	2,614,673	2,660,656	2,648,404
5,091,475	5,014,709	5,130,332	5,209,211	5,364,450	6,095,595
711,734	589,676	610,878	589,939	576,079	582,235
105,710	120,242	124,244	122,995	119,297	131,105
885,153	1,006,995	928,140	863,577	887,297	824,742
258,964	1,425,544	2,129,953	2,285,022	2,358,837	2,566,146
0	0	0	0	0	0
144,443	152,361	139,500	138,718	123,273	146,939
<u>12,335,458</u>	<u>12,245,769</u>	<u>12,588,457</u>	<u>12,602,755</u>	<u>12,988,671</u>	<u>13,725,003</u>
44,780	59,646	36,301	26,955	26,434	28,036
30,286	6,442	37,160	29,729	88,338	38,675
971,158	736,736	527,345	369,720	292,794	239,649
5,217	4,718	3,723	6,734	6,946	3,725
199,015	335,018	465,555	444,796	459,748	475,860
170	695	0	1,271	80	346
3,429	3,488	3,908	2,883	2,052	1,182
<u>1,254,055</u>	<u>1,146,743</u>	<u>1,073,992</u>	<u>882,088</u>	<u>876,392</u>	<u>787,473</u>
<u>\$ 13,589,513</u>	<u>\$ 13,392,512</u>	<u>\$ 13,662,449</u>	<u>\$ 13,484,843</u>	<u>\$ 13,865,063</u>	<u>\$ 14,512,476</u>
\$ 342,849	\$ 446,341	\$ 327,902	\$ 379,499	\$ 356,922	\$ 357,970
2,988,161	983,660	1,003,914	933,347	829,528	847,019
692,079	484,634	488,135	480,375	484,378	477,369
312,685	175,242	173,663	142,821	115,526	127,485
80,324	92,906	103,625	90,502	96,057	105,772
850,859	672,116	639,443	730,609	618,334	574,560
190,052	1,939,093	1,911,061	2,115,889	2,135,875	2,258,274
<u>5,457,009</u>	<u>4,793,992</u>	<u>4,647,743</u>	<u>4,873,042</u>	<u>4,636,620</u>	<u>4,748,449</u>
46,056	36,902	51,651	64,757	51,531	33,847
31,570	29,350	27,027	25,348	27,372	27,575
401,477	435,729	422,553	409,368	426,989	345,567
9,004	4,932	1,779	5,016	7,613	3,647
273,995	499,479	610,317	598,731	615,051	636,389
0	0	0	0	0	0
730	815	2,214	497	326	308
<u>762,832</u>	<u>1,007,207</u>	<u>1,115,541</u>	<u>1,103,717</u>	<u>1,128,882</u>	<u>1,047,333</u>
<u>\$ 6,219,841</u>	<u>\$ 5,801,199</u>	<u>\$ 5,763,284</u>	<u>\$ 5,976,759</u>	<u>\$ 5,765,502</u>	<u>\$ 5,795,782</u>
\$ (6,878,449)	\$ (7,451,777)	\$ (7,940,714)	\$ (7,729,713)	\$ (8,352,051)	\$ (8,976,554)
(491,223)	(139,536)	41,549	221,629	252,490	259,860
<u>\$ (7,369,672)</u>	<u>\$ (7,591,313)</u>	<u>\$ (7,899,165)</u>	<u>\$ (7,508,084)</u>	<u>\$ (8,099,561)</u>	<u>\$ (8,716,694)</u>

State of Kansas  
**Statistical Section**  
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**Financial Trends**

**Revenues and Other Changes in Net Position**

**Last Ten Fiscal Years**

*(Expressed in thousands)*

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	<u>2007</u>	<u>2008</u>	<u>2009</u>
Governmental activities:			
Taxes			
Property tax	\$ 593,229	\$ 613,222	\$ 631,800
Income and inheritance tax	3,210,696	3,431,970	2,997,595
Sales and excise tax	2,863,794	2,949,551	2,883,012
Gross receipts tax	134,872	138,094	138,532
Investment earnings	106,727	35,563	17,811
Other revenue	218,482	106,339	232,779
Transfers	69,881	78,160	78,177
Total governmental activities revenues	<u>7,197,681</u>	<u>7,352,899</u>	<u>6,979,706</u>
Business-type activities: <sup>1</sup>			
Investment earnings	45,914	44,956	37,890
Other revenue	31,624	33,014	182,920
Transfers	(69,881)	(78,160)	(78,177)
Total business-type activities revenues	<u>7,657</u>	<u>(190)</u>	<u>142,633</u>
Total primary government revenues	<u>\$ 7,205,338</u>	<u>\$ 7,352,709</u>	<u>\$ 7,122,339</u>
 <b>Change in Net Position</b>			
Governmental activities	\$ 472,757	\$ 25,147	\$ (136,659)
Business-type activities	123,100	(7,838)	(312,067)
Total primary government	<u>\$ 595,857</u>	<u>\$ 17,309</u>	<u>\$ (448,726)</u>



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**Revenues and Other Changes in Net Position**

**Last Ten Fiscal Years**

*(Expressed in thousands)*

<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
\$ 625,862	\$ 610,463	\$ 626,121	\$ 641,553	\$ 623,983	\$ 644,964	\$ 646,985
2,562,404	3,033,559	3,203,760	3,382,048	2,610,490	2,864,790	2,633,381
2,764,218	3,289,025	3,424,419	3,510,478	3,599,390	3,607,478	3,758,095
139,813	161,280	163,862	177,215	198,479	215,145	299,421
30,229	48,684	(19,548)	58,671	42,199	7,805	15,855
278,082	237,319	313,929	489,719	402,911	474,171	484,227
81,784	69,530	122,855	165,514	171,891	164,266	169,929
<u>6,482,392</u>	<u>7,449,860</u>	<u>7,835,398</u>	<u>8,425,198</u>	<u>7,649,343</u>	<u>7,978,619</u>	<u>8,007,893</u>
32,033	39,149	21,265	6,298	12,681	14,731	29,373
809,001	524,020	378,400	188,955	96,708	49,973	26,682
<u>(81,784)</u>	<u>(69,530)</u>	<u>(122,855)</u>	<u>(165,514)</u>	<u>(171,891)</u>	<u>(164,266)</u>	<u>(169,929)</u>
<u>759,250</u>	<u>493,639</u>	<u>276,810</u>	<u>29,739</u>	<u>(62,502)</u>	<u>(99,562)</u>	<u>(113,874)</u>
<u>\$ 7,241,642</u>	<u>\$ 7,943,499</u>	<u>\$ 8,112,208</u>	<u>\$ 8,454,937</u>	<u>\$ 7,586,841</u>	<u>\$ 7,879,057</u>	<u>\$ 7,894,019</u>
\$ 232,178	\$ 571,411	\$ 383,621	\$ 484,484	\$ (80,370)	\$ (373,432)	\$ (968,661)
<u>(212,631)</u>	<u>2,416</u>	<u>137,274</u>	<u>71,288</u>	<u>159,127</u>	<u>152,928</u>	<u>145,986</u>
<u>\$ 19,547</u>	<u>\$ 573,827</u>	<u>\$ 520,895</u>	<u>\$ 555,772</u>	<u>\$ 78,757</u>	<u>\$ (220,504)</u>	<u>\$ (822,675)</u>

State of Kansas  
**Statistical Section**  
June 30, 2016

**Financial Trends**

**Fund Balances, Governmental Funds**

**Last Ten Fiscal Years**

*(expressed in thousands)*

	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
General Fund				
Reserved	\$ 28,871	\$ 7,324	\$ 24,663	\$ 29,680
Unreserved	791,980	414,713	(201,007)	(278,000)
Total general fund	<u>\$ 820,851</u>	<u>\$ 422,037</u>	<u>\$ (176,344)</u>	<u>\$ (248,320)</u>
Social Services Fund <sup>1</sup>				
Reserved	\$ 16,708	\$ 0	\$ 0	\$ 0
Unreserved	7,810	0	0	0
Total social services fund	<u>\$ 24,518</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Transportation Fund				
Reserved	\$ 977,154	\$ 735,930	\$ 1,022,259	\$ 781,308
Unreserved	(356,696)	(94,692)	(562,388)	(524,154)
Total transportation fund	<u>\$ 620,458</u>	<u>\$ 641,238</u>	<u>\$ 459,871</u>	<u>\$ 257,154</u>
Transportation - Capital Projects Fund				
Reserved	\$ 0	\$ 0	\$ 0	\$ 0
Unreserved	(755,115)	(755,115)	(885,715)	(664,315)
Total transportation - capital projects fund	<u>\$ (755,115)</u>	<u>\$ (755,115)</u>	<u>\$ (885,715)</u>	<u>\$ (664,315)</u>
Health Policy Authority Fund				
Reserved	\$ 8,405	\$ 0	\$ 7,964	\$ 5,204
Unreserved	15,785	1,464	8,722	4,312
Total health policy authority fund	<u>\$ 24,190</u>	<u>\$ 1,464</u>	<u>\$ 16,686</u>	<u>\$ 9,516</u>
All Other Governmental Funds				
Reserved reported in:				
Reserved for debt service	\$ 13,767	\$ 32,224	\$ 165,598	\$ 209,443
Reserved for encumbrances	189,578	11,575	237,604	199,753
Reserved for advances to other funds	41,023	78,530	78,717	73,581
Unreserved	416,568	722,144	251,858	326,572
Total all other governmental funds	<u>\$ 660,936</u>	<u>\$ 844,473</u>	<u>\$ 733,777</u>	<u>\$ 809,349</u>

<sup>1</sup> In fiscal year 2008 the Social and Rehabilitation Fund was no longer a major fund.

In FY 2011, the State implemented GASB Statement No. 54; presentation is not comparable to prior years.

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**Financial Trends**

**Fund Balances, Governmental Funds**

**Last Ten Fiscal Years**

(expressed in thousands)

	2011	2012	2013	2014	2015	2016
<b>General Fund</b>						
Nonspendable:						
Inventory	\$ 6,620	\$ 7,593	\$ 7,446	\$ 7,851	\$ 5,308	\$ 4,754
Unassigned	(182,683)	207,530	390,890	(5,376)	(285,048)	(509,152)
Total General Fund	<u>\$ (176,063)</u>	<u>\$ 215,123</u>	<u>\$ 398,336</u>	<u>\$ 2,475</u>	<u>\$ (279,740)</u>	<u>\$ (504,398)</u>
<b>Social Services Fund</b>						
Nonspendable:						
Inventory	\$ 0	\$ 0	\$ 0	\$ 23	\$ 1,346	\$ 1,320
Restricted for:						
Human resources	56,200	56,773	61,041	58,794	22,029	55,090
Total Social Services Fund	<u>\$ 56,200</u>	<u>\$ 56,773</u>	<u>\$ 61,041</u>	<u>\$ 58,817</u>	<u>\$ 23,375</u>	<u>\$ 56,410</u>
<b>Health and Environment Fund<sup>1</sup></b>						
Restricted for:						
Health and Environment	\$ 0	\$ 101,844	\$ 138,777	\$ 187,268	\$ 198,181	\$ 186,382
Total Health and Environment Fund	<u>\$ 0</u>	<u>\$ 101,844</u>	<u>\$ 138,777</u>	<u>\$ 187,268</u>	<u>\$ 198,181</u>	<u>\$ 186,382</u>
<b>Education Fund<sup>2</sup></b>						
Restricted for:						
Education	\$ 0	\$ 0	\$ 0	\$ 0	\$ 11,568	\$ 5,688
Total Education Fund	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 11,568</u>	<u>\$ 5,688</u>
<b>Transportation Fund</b>						
Nonspendable:						
Inventory	\$ 23,968	\$ 24,940	\$ 24,363	\$ 23,983	\$ 23,465	\$ 24,598
Long-term receivable	0	0	0	0	1,495	9,721
Prepaid Insurance	0	0	0	1,096	391	27
Restricted for:						
Highways and other transportation	248,808	102,629	292,903	432,854	387,128	423,250
Total Transportation Fund	<u>\$ 272,776</u>	<u>\$ 127,569</u>	<u>\$ 317,266</u>	<u>\$ 457,933</u>	<u>\$ 412,479</u>	<u>\$ 457,596</u>
<b>Transportation-Capital Projects Fund<sup>3</sup></b>						
Unassigned	\$ (379,464)	\$ (504,312)	\$ (321,812)	\$ (383,215)	\$ 0	\$ 0
Total Transportation - Capital Projects Fund	<u>\$ (379,464)</u>	<u>\$ (504,312)</u>	<u>\$ (321,812)</u>	<u>\$ (383,215)</u>	<u>\$ 0</u>	<u>\$ 0</u>
<b>Health Policy Authority<sup>1</sup></b>						
Unassigned	\$ (16,319)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Total Health Policy Authority Fund	<u>\$ (16,319)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<b>All Other Governmental Funds</b>						
Nonspendable:						
Long-Term Receivables	\$ 0	\$ 6,275	\$ 4,487	\$ 4,153	\$ 4,085	\$ 4,493
Inventory	0	4	0	3,613	4,121	3,254
Restricted for:						
Capital projects	33,134	67,654	52,789	43,137	44,972	39,338
Debt Service	101,204	82,836	60,756	59,912	158,784	154,852
General government	243,636	350,578	355,907	309,541	221,805	190,921
Human resources	22,574	24,698	34,929	51,847	51,649	35,123
Education	8,959	15,669	17,837	16,255	7,531	7,032
Public safety	40,305	44,056	61,931	68,200	67,616	69,307
Agriculture and natural resources	47,663	53,988	56,521	41,306	62,678	67,970
Highways and other transportation	25,902	19,306	19,348	29,014	35,748	42,906
Health and environment	41,293	0	0	0	0	0
Assigned to:						
Debt Service	106,038	113,867	109,231	121,317	0	0
Unassigned	0	0	0	0	(147,000)	(147,004)
Total All Other Governmental Funds	<u>\$ 670,708</u>	<u>\$ 778,931</u>	<u>\$ 773,736</u>	<u>\$ 748,295</u>	<u>\$ 511,989</u>	<u>\$ 468,192</u>

**Note:** Beginning in fiscal year 2011, fund balance categories were reclassified as a result of implementing GASB Statement 54 but prior years were not restated.

<sup>1</sup> Health Policy Authority was merged into the Department of Health and Environment during fiscal year 2012.

<sup>2</sup> This fund is a major fund starting in fiscal year 2015, all prior years is included in All Other Government Funds.

<sup>3</sup> This fund is not a major fund starting in fiscal year 2015, starting in 2015 included in All Other Governmental Funds.

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**Financial Trends**

**Changes in Fund Balances, Governmental Funds**

**Last Ten Fiscal Years**

*(expressed in thousands)*

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
<b>Revenues</b>				
Taxes	\$ 6,828,429	\$ 7,138,723	\$ 6,625,408	\$ 6,207,094
Charges for services	744,423	654,744	845,364	704,012
Intergovernmental (operating and capital grants)	3,091,345	3,391,868	3,580,727	4,486,248
Investment earnings	106,733	35,573	17,821	29,636
Other revenues (includes extraordinary items)	<u>290,090</u>	<u>127,260</u>	<u>240,323</u>	<u>260,349</u>
Total revenues	<u>11,061,020</u>	<u>11,348,168</u>	<u>11,309,643</u>	<u>11,687,339</u>
<b>Expenditures</b>				
General government	1,101,740	1,044,775	1,082,627	991,136
Human resources	3,089,907	3,289,095	3,697,593	3,777,533
Education	3,879,673	5,014,160	5,185,294	5,026,615
Public safety	611,471	749,165	755,762	779,411
Agriculture and natural resources	102,387	111,419	126,182	108,018
Highways and other transportation	1,033,768	1,033,419	1,010,200	988,028
Health and environment	200,906	227,102	227,159	233,173
Economic Development	3,125	251	0	0
Debt service:				
Principal	112,398	135,524	134,367	190,938
Interest	<u>147,770</u>	<u>145,694</u>	<u>146,375</u>	<u>141,200</u>
Total expenditures	<u>10,283,145</u>	<u>11,750,604</u>	<u>12,365,559</u>	<u>12,236,052</u>
Excess of revenues over (under) expenditures	777,875	(402,436)	(1,055,916)	(548,713)
<b>Other Financing Sources (Uses)</b>				
Issuance of bonds	54,188	225,171	117,248	561,972
Issuance of notes payable	0	0	0	0
Issuance of capital leases	0	0	0	0
Premium on issuance of debt	0	0	0	0
Issuance of refunding bonds	0	0	0	0
Premium on issuance of refunding debt	0	0	0	0
Payment to refunded bonds escrow agent	0	0	0	0
Transfers, net	(797,276)	83,167	84,246	86,169
Other financing sources (uses)	0	(150,275)	0	0
Extraordinary items	<u>0</u>	<u>0</u>	<u>0</u>	<u>(87,359)</u>
Total other financing sources (uses)	<u>(743,088)</u>	<u>158,063</u>	<u>201,494</u>	<u>560,782</u>
Net change in fund balances	<u>\$ 34,787</u>	<u>\$ (244,373)</u>	<u>\$ (854,422)</u>	<u>\$ 12,069</u>
Debt service as a percentage of noncapital expenditures	2.53%	2.39%	2.27%	2.71%

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**Changes in Fund Balances, Governmental Funds**  
**Last Ten Fiscal Years**  
*(expressed in thousands)*

<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
\$ 7,032,605	\$ 7,474,894	\$ 7,637,721	\$ 7,144,913	\$ 7,269,247	\$ 7,373,018
752,092	758,369	871,562	922,162	829,508	871,358
4,723,639	3,955,974	3,780,418	3,955,175	3,807,458	3,867,624
42,170	9,394	31,200	47,697	8,689	19,127
213,449	319,926	435,276	382,441	464,638	432,119
<u>12,763,955</u>	<u>12,518,557</u>	<u>12,756,177</u>	<u>12,452,388</u>	<u>12,379,540</u>	<u>12,563,246</u>
1,052,688	1,120,050	668,180	743,637	895,287	961,724
4,040,706	2,741,155	2,697,933	2,632,279	2,678,419	2,657,162
5,090,986	5,015,177	5,132,786	5,207,568	5,363,336	6,097,651
720,548	614,237	631,164	635,851	583,720	642,870
114,677	124,041	130,156	128,294	131,411	132,893
1,022,332	1,101,841	1,042,855	1,026,126	1,158,149	1,123,268
259,139	1,426,387	2,134,837	2,286,017	2,359,955	2,565,616
0	0	0	0	0	0
187,832	204,455	238,498	222,209	170,094	199,563
<u>153,293</u>	<u>146,679</u>	<u>140,544</u>	<u>139,887</u>	<u>135,803</u>	<u>183,145</u>
<u>12,642,201</u>	<u>12,494,022</u>	<u>12,816,953</u>	<u>13,021,868</u>	<u>13,476,174</u>	<u>14,563,892</u>
121,754	24,535	(60,776)	(569,480)	(1,096,634)	(2,000,646)
370,053	178,448	554,016	59,963	705,645	1,421,780
0	0	0	0	3,858	0
0	0	0	11,777	12,550	66,961
0	0	0	5,644	83,565	122,880
0	0	0	58,550	191,290	190,875
0	0	0	7,909	32,882	0
0	0	0	(53,095)	(223,238)	(223,778)
75,071	129,104	170,825	177,054	161,739	181,453
0	0	(100,489)	0	0	0
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>445,124</u>	<u>307,552</u>	<u>624,352</u>	<u>267,802</u>	<u>968,291</u>	<u>1,760,171</u>
<u>\$ 566,878</u>	<u>\$ 332,087</u>	<u>\$ 563,576</u>	<u>\$ (301,678)</u>	<u>\$ (128,343)</u>	<u>\$ (240,475)</u>
2.70%	2.81%	3.02%	2.85%	2.35%	2.71%

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**Revenue Capacity**

**Personal Income by Industry, Last Ten Calendar Years**

*(expressed in thousands)*

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	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Private Earning				
Agricultural, Forestry, Fishing and Hunting	\$ 234,407	\$ 280,613	\$ 285,723	\$ 304,439
Mining	1,589,409	1,569,892	1,288,477	1,549,581
Utilities	722,574	792,169	795,278	865,694
Construction	4,094,066	4,071,929	4,413,807	3,988,070
Manufacturing	12,504,265	13,461,380	12,736,605	11,899,007
Wholesale trade	3,991,402	4,241,222	4,657,163	4,436,794
Retail trade	4,582,546	4,678,343	4,920,439	4,540,800
Transportation and warehousing	2,611,443	2,767,873	2,970,686	2,850,770
Information	3,521,742	3,716,215	3,479,790	3,102,540
Finance and insurance	3,883,858	4,188,156	4,361,995	4,232,883
Real estate and rental and leasing	1,171,789	1,042,920	911,215	874,085
Professional, scientific, and technical services	4,875,571	5,190,583	5,215,212	5,252,448
Management of companies and enterprises	879,612	1,116,081	1,325,278	1,182,450
Administrative and waste management services	2,847,681	2,855,338	3,098,871	2,925,202
Educational services	541,281	527,279	617,913	658,248
Health care and social assistance	6,819,398	7,198,640	8,139,847	8,503,526
Arts, entertainment, and recreation	295,266	312,531	326,814	318,636
Accommodation and food services	1,759,646	1,793,797	2,102,920	2,018,859
Other services, except public administration	2,059,524	2,230,187	3,084,342	2,905,835
Government				
Federal, civilian	2,145,533	2,140,546	2,197,668	2,321,229
Military	2,096,824	2,544,087	2,844,514	3,143,234
State and local	10,239,615	9,703,924	10,333,042	10,770,093

**Source:** U.S. Department of Commerce, Bureau of Economic Analysis at: <http://www.bea.gov/regional/spi>

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**Revenue Capacity**

**Personal Income by Industry, Last Ten Calendar Years**

*(expressed in thousands)*

<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
\$ 317,562	\$ 476,468	\$ 424,247	\$ 509,533	\$ 566,214	\$ 704,803
1,119,291	1,312,659	2,450,391	2,363,628	2,250,743	2,367,335
880,301	1,019,849	1,072,857	1,038,267	1,035,120	963,811
4,192,919	4,295,913	4,584,441	4,927,057	5,155,475	5,316,772
11,217,913	12,245,199	12,858,450	12,975,820	12,586,349	12,716,447
4,549,753	4,622,713	4,804,592	4,893,810	5,129,704	5,111,042
4,893,380	5,070,180	5,137,811	5,276,719	5,306,422	5,511,376
2,824,582	3,035,855	3,383,190	3,471,380	3,527,677	3,628,316
2,362,177	2,282,041	2,393,542	2,442,177	2,579,813	1,669,187
4,512,022	4,847,908	5,012,431	5,362,230	5,520,793	5,747,020
976,563	965,612	1,040,947	1,244,046	1,258,576	1,368,350
5,294,398	5,437,098	5,606,490	5,966,214	6,190,944	6,638,906
1,503,770	1,384,309	1,474,957	1,624,865	1,979,648	3,373,787
3,163,367	3,511,110	3,702,063	3,939,882	4,002,036	3,937,420
684,460	720,020	761,842	785,353	823,275	860,898
8,893,444	9,226,828	9,466,219	9,667,124	9,832,906	10,244,837
338,025	356,520	424,011	461,991	481,064	489,989
2,114,290	2,158,100	2,318,669	2,364,565	2,496,760	2,659,544
2,986,984	3,151,597	3,199,920	3,377,835	3,464,098	3,536,207
2,560,832	2,628,836	2,344,005	2,250,015	2,275,401	2,368,551
3,490,732	3,739,591	2,886,228	2,761,891	2,712,249	2,609,762
10,799,866	10,961,004	11,282,155	11,309,364	11,633,575	11,695,808

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**Debt Capacity**

**Long Term Obligations**

**Last Ten Fiscal Years**

*(Expressed in thousands)*

	2007	2008	2009	2010
<b>Government Activities</b>				
Revenue bonds payable (includes demand bonds)	\$ 2,740,099	\$ 2,726,970	\$ 2,744,828	\$ 2,861,825
Sales tax limited obligation	218,420	185,924	156,196	208,425
Note payable	18,278	17,597	26,655	25,843
Capital leases payable	145,366	140,106	130,533	138,821
Arbitrage rebate payable	97	481	385	400
Claims and judgements	61,593	82,858	85,920	87,216
Compensated absences	118,795	121,255	134,386	129,921
Other post employment benefits	0	16,813	26,626	36,270
Net pension liability	0	0	0	0
Pollution remediation	0	0	81,092	70,936
Total governmental activities	3,302,648	3,292,004	3,386,621	3,559,657
<b>Business-Type Activities</b>				
Revenue bonds payable	714,857	677,472	765,976	749,001
Note payable	0	0	0	0
Arbitrage rebate payable	1,340	1,755	2,885	1,254
Unemployment benefits loan	0	0	0	88,159
Claims and judgements	180,802	205,766	218,332	215,402
Compensated absences	59	56	72	68
Other post employment benefits	0	89	155	224
Net pension liability	0	0	0	0
Other	13,730	14,703	17,115	17,697
Total business-type activities	910,788	899,841	1,004,535	1,071,805
<b>Component Units</b>				
Revenue bonds payable	684,398	692,025	705,223	700,808
Note payable	20,443	119,073	146,517	0
Other component units of university system	0	0	0	174,530
Capital leases payable	16,143	15,019	14,147	14,568
Arbitrage rebate payable	69	163	123	98
Compensated absences	52,503	58,743	61,943	65,691
Other post employment benefits	0	11,775	20,068	30,404
Net pension liability	0	0	0	0
Pollution remediation	0	0	0	4,000
Other	127,836	110,071	111,701	110,928
Total component units	901,392	1,006,869	1,059,722	1,101,027
Total	\$ 5,114,828	\$ 5,198,714	\$ 5,450,878	\$ 5,732,489



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**Debt Capacity**  
**Long Term Obligations**  
**Last Ten Fiscal Years**  
*(Expressed in thousands)*

	2011	2012	2013	2014	2015	2016
\$	3,077,604	\$ 3,066,913	\$ 2,726,723	\$ 2,681,470	\$ 3,292,111	\$ 4,603,952
	225,548	192,045	139,662	105,033	0	0
	20,031	18,399	63,100	15,350	18,093	17,047
	129,089	114,926	97,515	91,027	80,809	137,708
	827	136	136	190	184	237
	88,797	88,501	102,385	154,457	148,976	119,145
	126,241	120,131	118,656	120,831	113,015	112,219
	47,188	51,998	55,079	58,631	59,504	4,266
	0	0	0	0	1,750,877	2,078,136
	73,660	69,152	63,575	65,678	48,747	63,053
	3,788,985	3,722,201	3,366,831	3,292,667	5,512,316	7,135,763
	767,878	620,153	474,771	452,317	407,056	327,577
	0	0	0	0	0	0
	173	176	196	190	237	340
	170,821	4,602	50,209	0	0	0
	221,160	199,234	200,180	198,631	258,093	263,484
	73	68	75	89	92	92
	300	343	378	412	424	26
	0	0	0	0	5,520	6,475
	17,597	17,093	12,992	11,965	11,680	11,732
	1,178,002	841,669	738,801	663,604	683,102	609,726
	691,971	667,137	619,256	809,260	825,775	941,839
	0	0	0	0	0	0
	217,034	263,592	262,421	333,000	406,927	790,803
	13,616	11,761	11,991	9,380	7,752	6,500
	51	46	49	51	404	29
	69,101	73,516	68,897	78,918	78,459	84,423
	41,794	48,078	56,415	64,993	71,015	1,816
	0	0	0	0	240,024	268,020
	3,700	1,200	0	0	0	0
	61,395	54,711	48,676	252,759	221,062	208,246
	1,098,662	1,120,041	1,067,705	1,548,361	1,851,418	2,301,676
\$	6,065,649	\$ 5,683,911	\$ 5,173,337	\$ 5,504,632	\$ 8,046,836	\$ 10,047,165

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**Demographic and Economic Information**  
**Kansas Demographic Statistics**  
**Last Ten Fiscal Years**

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<b>Year</b>	<b>Population</b>	<b>Per Capita Personal Income</b>	<b>Median Age</b>	<b>Education Level in Years of Formal Schooling</b>	<b>K to 12 Public School Enrollment</b>	<b>Unemployment Rate</b>
	(1)	(2)	(3)	(4)	(4)	(5)
2007	2,783,785	36,483	36.7	-	465,374	4.4%
2008	2,808,076	37,978	36.2	-	465,135	4.6%
2009	2,832,704	38,886	35.9	-	473,097	7.2%
2010	2,858,824	37,916	36.0	-	479,204	7.1%
2011	2,869,917	37,418	36.1	13.28	481,120	6.7%
2012	2,886,281	40,883	36.1	-	482,798	6.0%
2013	2,894,630	43,916	36.0	-	485,147	5.7%
2014	2,902,507	45,546	36.1	-	492,301	4.8%
2015	2,911,641	45,876	36.1	-	492,905	4.5%
2016	(6)	(6)	(6)	(6)	491,577	4.4%

**Data Sources:**

- (1) From Kansas Department of Labor, 2016 Kansas Economic Report:  
<https://klic.dol.ks.gov/gsipub/index.asp?docid=524>
- (2) State Department of Commerce and U.S. Department of Commerce, BEA Web Site:  
<http://kansascommerce.com> or <http://www.bea.gov>
- (3) State Department of Health and Environment: <http://www.kdheks.gov>
- (4) State Department of Education Web Site:  
<http://www.ksde.org/Agency/Fiscal-and-Administrative-Services/School-Finance/Reports-and-Publications>
- (5) U.S. Department of Labor, June, not seasonally adjusted: <http://data.bls.gov/cgi-bin/surveymost>
- (6) Information is not available at this time.

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**Demographic and Economic Information**

**Principal Employers in Kansas**

**Current Year and Ten Years Ago**

Employer	2016			2007		
	Local/Total Employees	Rank	Percentage of Total Employment	Local/Total Employees	Rank	Percentage of Total Employment
State Government (actual & excludes Regents)	40,102 / 40,102	1	2.66%			
Sprint Spectrum Holding Company, L.P.	13,000 / 30,000	2	0.86%	10,800 / 64,600	3	0.75%
KU and KUMC	8,198 / 8,198	3	0.54%			
Wichita Public Schools	5,000 / 5,000	4	0.33%			
Black & Veatch Corp - Baker Guam JV	4,500 / 10,285	5	0.30%			
Railcrew Xpress, LLC	4,500 / 8,000	6	0.30%			
Ferrellgas, Inc.	3,922 / 3,922	7	0.26%			
TSVC, Inc.	3,680 / 3,680	8	0.24%			
Bombardier Learjet, Inc.	3,000 / 3,000	9	0.20%			
Great-West Financial Retirement Plan Services	2,900 / 19,000	10	0.19%			
Cessna Aircraft Corporation				12,000 / 40,000	1	0.84%
Hawker Aircraft Co.				12,000 / 12,000	2	0.84%
Spirit Aerosystems Inc.				8,000 / 11,845	4	0.56%
Royal Caribbean Cruises Ltd.				4,900 / 42,958	5	0.34%
Coleman Company Incorporated				4,600 / 4,600	6	0.32%
Koch Industries. Inc.				4,390 / 85,270	7	0.31%
Via Christi Hospitals Wichita, Inc.				4,000 / 11,000	8	0.28%
Stormont-Vail Healthcare, Inc.				3,400 / 3,400	9	0.24%
Performance Contracting Inc.				3,000 / 4,000	10	0.21%
Total	88,802 / 131,187		5.90%	67,600 / 237,361		4.69%

Source: Dun & Bradstreet Corporation, Million Dollar Databases, Dun & Bradstreet, and Kansas Department of Labor at <http://www.dol.ks.gov>. The base numbers used to calculate the percentages are the average numbers of the total civilian Labor Force from FY2016 and FY2007 respectively.

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**Operating Information**

**Full-time Equivalent State Government Employees by Function/Program**

**Last Ten Fiscal Years**

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<b>Function/Program</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
General Government	5,834	5,937	5,849	5,835	5,846
Public Safety	5,622	5,692	5,710	5,573	5,520
Education	17,779	18,448	18,417	18,444	18,096
Transportation	3,258	3,243	3,160	3,165	3,164
Agriculture and Natural Resources	1,388	1,414	1,484	1,437	1,430
Human Resources	8,475	8,588	8,612	8,636	8,679
Total	<u>42,356</u>	<u>43,322</u>	<u>43,232</u>	<u>43,090</u>	<u>42,735</u>

**Source:** Division of the Budget Comparison Reports at <http://budget.ks.gov/comparis.htm>.

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**Operating Information**

**Full-time Equivalent and Non-Full-time Equivalent Unclassified Permanent State Government Positions by Function**

**Last Ten Fiscal Years**

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<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
5,490	5,275	5,287	5,275	5,433
5,415	5,445	5,400	5,426	5,253
18,446	18,402	18,400	18,388	18,874
2,968	2,880	2,737	2,737	2,516
1,412	1,301	1,302	1,303	1,272
<u>7,470</u>	<u>7,058</u>	<u>7,001</u>	<u>6,643</u>	<u>6,754</u>
<u>41,201</u>	<u>40,361</u>	<u>40,127</u>	<u>39,772</u>	<u>40,102</u>

**Source:** Division of the Budget Comparison Reports at <http://budget.ks.gov/comparis.htm>.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Legislative Post Audit Committee  
Kansas State Legislature  
State of Kansas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Kansas (the State), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the State's basic financial statements, and have issued our report thereon dated November 21, 2016. Our report includes a reference to other auditors who audited the financial statements of the various component units of the six state universities, the Kansas Development Finance Authority (KDFA), the Kansas Center for Entrepreneurship (KCE), the Kansas Housing Resources Corporation (KHRC), the Kansas Bioscience Authority (KBA), the Kansas Turnpike Authority (KTA), Information Network of Kansas, Inc. (INK), Kansas Lottery and the Kansas Universal Services Fund (reported within the State Regulatory Boards and Commission Fund) as described in our report on the State's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the various component units of the six state universities, KCE and INK were not audited in accordance with *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the State's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we do not express an opinion on the effectiveness of the State's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying financial statement schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying financial statement schedule of findings listed as 2016-001 and 2016-002 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying financial statement schedule of findings listed as 2016-003 and 2016-004 to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the State's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **State of Kansas' Response to Findings**

The State's responses to the findings identified in our audit are described in the accompanying financial statement schedule of findings. The State's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Broomfield, Colorado  
November 21, 2016

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## ***Section II – Financial Statement Findings***

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### **2016 – 001 - Net Pension Liability Material Prior Period Adjustment**

#### **Type of Finding: Material Weakness in Internal Control over Financial Reporting**

**Criteria or specific requirement:** During fiscal year 2015, the State of Kansas (the State) implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This statement establishes accounting and financial reporting by state and local governments for pensions. As a result of the implementation, the State is required to calculate and report a net pension liability for its proportionate share of the Kansas Public Employees Retirement System (KPERS) Cost-Sharing Multiple-Employer Defined Benefit Pension Plan as provided by K.S.A. 74-4901. The State is also required to recognize the related deferred outflows of resources, deferred inflows of resources and pension expense.

**Condition:** At the conclusion of each fiscal year, the State calculates and records a net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense based on information reported by KPERS. The State's proportionate share is determined by an actuarial valuation and is based on employer contributions. State law provides the employer contribution rates be determined based on the results of each annual actuarial valuation.

During preparation of the 2015 Comprehensive Annual Financial Report (CAFR), the State inadvertently omitted the net pension liability, deferred outflows of resources and deferred inflows of resources related to the Kansas Department of Transportation (KDOT) within governmental activities on the Statement of Net Position. The State's final review process over the 2015 CAFR did not identify the omission of approximately \$168 million related to the Kansas Department of Transportation's component of the net pension liability, deferred outflows of resources and deferred inflows of resources which resulted in an overstatement of governmental activities total net position by approximately \$168 million.

In addition, the State records their share of the net pension liability, deferred outflows of resources and deferred inflows of resources related to the Special Funding Group employers, which are vocational-technical schools and community junior colleges. This Special Funding Group activity is split amongst the State and a portion is allocated to the applicable employer. During preparation of the 2015 CAFR, the State recorded 100 percent of the net pension liability, deferred outflows of resources and deferred inflows of resources. The State relied on the KPERS actuarial report which did not allocate a share to the Special Funding Group employers, thus resulting in an understatement by the State of governmental activities total net position by approximately \$28 million.

**Context:** As of June 30, 2015, the State recorded a net pension liability, deferred outflows of resources and deferred inflows of resources in the amounts of \$1.75 billion, \$129 million and \$298 million, respectively, within governmental activities. As of June 30, 2015, net pension liability, deferred outflows of resources and deferred inflows of resources should have been approximately \$1.9 billion, \$139 million and \$328 million, respectively, within governmental activities.

**Cause:** KDOT's activity related to the implementation of GASB Statement No. 68 should be recorded within governmental activities on the Statewide CAFR. In addition, the Special Funding



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## ***Section II – Financial Statement Findings***

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Group's activity should be recorded within governmental activities only for the portion allocated to the State. As of June 30, 2015, the net pension liability, deferred outflows of resources and deferred inflows of resources related to KDOT were not accounted for within governmental activities on the 2015 CAFR. This resulted in a prior period adjustment on the 2016 CAFR (See Note III.J).

**Effect:** The net pension liability, deferred outflows of resources and deferred inflows of resources could be materially misstated at the end of the fiscal year.

**Recommendation:** We recommend the State review, improve and document its procedures surrounding the year-end journal entry process regarding the recording of the net pension liability and related deferred outflows of resources and deferred inflows of resources.

### **Views of responsible officials and planned corrective actions:**

**Actions planned in response to finding:** The State discovered the omission of the KDOT net pension liability, deferred outflows of resources and deferred inflows of resources during fiscal year 2016 CAFR preparation. The State brought forth the omission to the auditors. The review process to eliminate this issue was implemented at fiscal year 2016 year-end successfully.

The allocation to the Special Funding Group was corrected by the actuarial firm in their report for fiscal year 2016. The State then made the appropriate correction.

**Responsible party:** DeAnn Hill, Chief Financial Officer, State of Kansas

**Planned completion date for corrective action plan:** Fiscal year 2016

**Plan to monitor completion of corrective action plan:** Part of the review process established at year-end for each fiscal year.

## **2016 – 002 – Department for Children and Families Material Prior Period Adjustment**

### **Type of Finding: Material Weakness in Internal Control over Financial Reporting**

**Criteria or specific requirement:** The State is required to report a receivable and related revenue due to its involvement in federal grant programs at the close of each fiscal year.

Year-end financial reporting is the responsibility of the Financial Integrity Team within the Department of Administration (DOA). The State of Kansas utilizes a financial management system called the Statewide Management Accounting and Reporting Tool (SMART). When an agency (other than the DOA) utilizes the SMART system, the accounting clerk of that agency or another agency employee with specific rights in SMART, records and codes financial activity in SMART.

For the agencies that do not use SMART to record year-end financial activity such as accounts receivable, the Financial Integrity Team sends out a questionnaire at the end of each fiscal year to these agencies to collect all necessary financial information. The Financial Integrity Team

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## ***Section II – Financial Statement Findings***

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inputs this information into SMART at a summary level for recording in the CAFR. Period end account reconciliations and accruals are made either by the Finance Integrity Team or by the underlying agency. Account reconciliations performed include the recording of accounts receivable and revenue. The Financial Integrity Team reviews back up documentation for agency calculated accruals.

**Condition:** In accordance with K.S.A. 75-3728, a DA-32 report is submitted by the Department for Children and Families to the DOA at the conclusion of each fiscal year. The DA-32 report outlines the beginning fiscal year receivable balance, current year activity, calculated ending balance and the estimated allowance for doubtful accounts related to federal grant programs.

During the prior fiscal year, the State recorded only a portion of the accounts receivable as revenue in the year-end journal entry which resulted in an understatement of accounts receivable and an understatement of revenue in the amount of approximately \$31 million.

**Context:** As of June 30, 2015 accounts receivable, revenue and fund balance was understated in the Social Services and General Fund.

**Cause:** The year-end journal entry made by the State to record the year-end accounts receivable and revenue was prepared incorrectly. This resulted in a \$31 million prior period adjustment to properly reflect the beginning fund balance as of July 1, 2015 in the Social Services and General Fund.

**Effect:** Accounts receivable, revenue and ending fund balance could be materially misstated at the close of the fiscal year if journal entries are not properly recorded and approved.

**Recommendation:** We recommend the State review, improve and document its procedures surrounding the year-end journal entry process, specifically, related to accounts receivable and related revenues.

### **Views of responsible officials and planned corrective actions:**

**Actions planned in response to finding:** The Department of Administration, Office of the Chief Financial Officer, will 1) review the preparation and approval processes currently in place, and 2) consider enhancements to those processes, potentially implementing an additional layer of review.

**Responsible party:** DeAnn Hill, Chief Financial Officer, State of Kansas

**Planned completion date for corrective action plan:** Fiscal year 2017

**Plan to monitor completion of corrective action plan:** Ongoing

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## ***Section II – Financial Statement Findings***

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### **2016 – 003 – Social Services Fund – Accounts Payable**

#### **Type of Finding: Significant Deficiency in Internal Control over Financial Reporting**

**Criteria or specific requirement:** To accurately and effectively account for financial transactions, a general ledger is utilized by the State as a way to track fiscal transactions for internal and external accountability. Proper controls ensure that all financial activities of the current period are properly captured in the comprehensive general ledger system so that activity and balances are properly reflected in the financial statements.

**Condition:** In performing the fiscal year 2016 audit over the Statewide CAFR, we noted the State, specifically, the Social Services Fund, has a liability balance recorded in the amount of approximately \$3.2 million. Through further inquiry of the Department of Administration, it was noted the liability balance had been recorded during the 2006 fiscal year (September 2005) and had not been changed or removed since the 2006 fiscal year. Through inquiry and work performed, it was further noted, the liability balance should have been \$0 at the conclusion of prior fiscal years and as of June 30, 2016.

**Context:** As of June 30, 2016, the accounts payable balance reported within the Social Services Fund is overstated by approximately \$3.2 million and fund balance is understated by \$3.2 million.

**Cause:** A liability was recorded during fiscal year 2006 to the Social Services Fund and was not subsequently reduced during fiscal years 2006 – 2016.

**Effect:** Accounts payable and ending fund balance could be misstated at the close of the fiscal year if activity during each fiscal year is not properly accounted for.

**Recommendation:** We recommend the State review, improve and document its procedures surrounding the year-end general ledger close process as a means to identify those account balances which are dormant year over year.

#### **Views of responsible officials and planned corrective actions:**

**Actions planned in response to finding:** The State will expand the variance review process at year-end to ensure it includes dormant account balances.

**Responsible party:** DeAnn Hill, Chief Financial Officer, State of Kansas

**Planned completion date for corrective action plan:** Fiscal year 2017

**Plan to monitor completion of corrective action plan:** The process will be included in the fiscal year 2017 year-end variance review. During sign off of this process, dormant accounts will be addressed and accounted for appropriately.

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## ***Section II – Financial Statement Findings***

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### **2016 – 004 – State University System Financial Statement Preparation Process**

#### **Type of Finding: Significant Deficiency in Internal Control over Financial Reporting**

**Criteria or specific requirement:** Internal controls should be in place to provide reasonable assurance that the financial statement close process for preparing the various Universities' year-end financial statements, including the recording of all elimination entries, occurs.

**Condition:** In performing the fiscal year 2016 audit over the Statewide CAFR, we noted two instances of inadequate controls over the financial close process for certain Universities. KUMC did not include all of its cash balances while preparing its year-end financial statements. This resulted in an understatement of cash in the amount of \$5.2 million. In addition, KSU did not correctly categorize the elimination of leasehold improvements of approximately \$69 million recorded on both KSU and KSU Athletics (Component unit) Universities financial statements. The elimination entry was incorrectly recorded to expenses instead of revenue. This resulted in an overstatement of revenues and an overstatement of expenses by approximately \$69 million.

**Context:** As of June 30, 2016, the cash balance reported by KUMC is understated by approximately \$5.2 million. The elimination entry was corrected by KSU prior to finalizing our audit.

**Cause:** The cause of both of these misstatements was oversight by the respective Universities.

**Effect:** Cash for KUMC was understated at the close of the fiscal year. Prior to KSU correcting the elimination entry, KSU's revenues were overstated as well as the expenses.

**Recommendation:** We recommend the respective Universities review, improve and document its procedures surrounding the year-end general ledger close process so that all balances are captured and all elimination entries are recorded properly.

#### **Views of responsible officials and planned corrective actions:**

**Actions planned in response to finding:** The University of Kansas Medical Center ("KUMC") will undertake a review to determine exactly where and how this reporting error occurred. KUMC will document and make all necessary process changes to ensure that this reporting error will not occur again. Formal documentation of the review process and of corrected procedures to ensure proper internal controls are in place will occur for future periods.

This review will include senior members of the finance team of KUMC assisted by an outside accounting firm under contract by KUMC. In addition, the Internal Audit function of the University of Kansas will be asked to review and confirm the adequacy of the internal controls.

The University of Kansas Medical Center takes full responsibility for this reporting error and will take all actions necessary to prevent any future errors of this kind. Although this reporting error did occur for financial reporting purposes, KUMC did maintain operational

control and maintenance of all funds during the entire fiscal year. All funds held in the state treasury were monitored, managed, and reconciled on a monthly basis during the fiscal year; however, this error occurred when the various amounts were summarized for annual reporting statements.

Kansas State University concurs that the recommendation to categorize the elimination entry from the expense category to the revenue category (as a negative revenue) correctly presents the revenues and expenses on the Statement of Revenues, Expenses and Changes in Net Position. The change does not impact the fiscal year end net position of the university. Documentation has been updated to ensure that the entry is coded properly in the financial reporting system.

**Responsible party:** Mike Keeble, Associate Vice Chancellor of Finance, University of Kansas Medical Center

Fran Willbrant, Assistance Vice President for Financial Services, Kansas State University

**Planned completion date for corrective action plan:** Fiscal year 2017

**Plan to monitor completion of corrective action plan:** KUMC will complete this review and correction process by the end of February 2017 to ensure that strengthened internal control procedures are fully in place prior to the fiscal year end close of 2017. The review will include senior members of the finance team of KUMC assisted by an outside accounting firm under contract by KUMC. In addition, the Internal Audit function of the University of Kansas will be asked to review and confirm the adequacy of the internal controls.

Kansas State University will use the documentation regarding elimination entries to avoid recurrence of the error.

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### ***Section III – Prior Year Financial Statement Findings***

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#### **2015 – 001- Income Tax Receivable, Deferred Inflow of Resources and Revenue**

##### **Type of Finding: Material Weakness in Internal Control over Financial Reporting**

**Condition:** Throughout the year, the State collects individual income tax withholdings from employees throughout the State. Related to collections during the second half of the fiscal year (January through June), the State reports a June 30 liability for the portion it expects to refund to taxpayers the following spring. Likewise, the State reports a June 30 receivable for amounts it expects to receive from annual filers the following spring.

The State inadvertently posted a journal entry to revenue, rather than to deferred inflows of resources and did not identify the error in a timely manner. The State performs a final analytical review over account fluctuations from the prior year to the current year. This final review is performed prior to the State releasing a draft Comprehensive Annual Financial Report (CAFR) to the auditors, but after the audit process begins. During our test work over the tax receivables, deferred inflows of resources and revenues, we noted the journal entry to record the deferred inflow of resources was inadvertently posted to revenue in the amount of \$162 million prior to our receipt of the general fund trial balance on October 1, 2015. The error was brought to the Department of Administration's attention on October 23, 2015 prior to the receipt of the draft CAFR on November 1, 2015. The State does have a review process after journal entries are posted to the general ledger, however, this review process did not identify the incorrect posting in a timely manner. Consequently, the review process for journal entries was identified as a material weakness due to the necessary adjustment to the trial balance being material to the financial statements.

**Recommendation:** We recommend the State review, improve and document its procedures surrounding the year-end journal entry process specifically related to tax receivables, deferred inflows of resources and revenues.

**Current Year Status:** Through work performed during fiscal year 2016, prior year material weakness appears to be mitigated.

#### **2015 – 002 – Department of Commerce and State Universities Material Prior Period Adjustment**

##### **Type of Finding: Material Weakness in Internal Control over Financial Reporting**

**Condition:** During fiscal year 2015, the State revised the process by which financial information is communicated from the six major Universities, to the Department of Administration as a means to more effectively account for the Universities financial information. The changes instituted by the State enabled it to identify that the reimbursement process between the Department of Commerce, KSU and WSU, had in fact not been accounted for properly prior to fiscal year 2015. As a result of the State's identification of the omitted reimbursement process, a material adjustment to a prior period balance was proposed by the State. CLA agreed with the material adjustment related to the Department of Commerce, KSU and WSU.

**Recommendation:** We recommend the State continue to evaluate and implement new processes and procedures, specifically, revolving around the flow of financial information from

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### ***Section III – Prior Year Financial Statement Findings***

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outside agencies and discretely presented component units to the Department of Administration. As the State continues to revise or implement new procedures, it will help to ensure the flow of information is both effective and efficient. In addition, as the State institutes new procedures, specifically related to the flow of financial information, the State will continue to strengthen its control environment and will ensure all financial information is properly accounted for at the end of the fiscal year.

**Current Year Status:** Through work performed during fiscal year 2016, prior year material weakness appears to be mitigated.

#### **2015 – 003 – Kansas Department of Health and Environment Receivable and Revenue**

##### **Type of Finding: Material Weakness in Internal Control over Financial Reporting**

**Condition:** Provider assessments paid by hospitals are receipted into a fund reported in the Kansas Department of Health and Environment (KDHE) related to the fee-for-service program. The total amount assessed in fiscal year 2015 was approximately \$48 million, which has remained unchanged from prior years.

The State's accounting function is highly decentralized, in that the DOA is reliant on various State agencies, departments and components to provide accurate financial information necessary to draft the Comprehensive Annual Financial Report. Through work performed and inquiries of DOA and KDHE personnel, it was noted that approximately \$31.5 million of the total \$48 million assessed during fiscal year 2015, was received prior to June 30, 2015. It was also noted, there was not a receivable recorded as of June 30, 2015 for the additional \$16.5 million not yet received as of June 30, 2015. Through additional discussions with State personnel, it was noted that a prior year receivable balance of approximately \$13 million had not been recorded.

**Recommendation:** We recommend the Department of Administration re-evaluate the process by which it obtains and reviews the information necessary to draft and review the State's Comprehensive Annual Financial Report prior to the start of the audit. This will help ensure information obtained from outside agencies is complete prior to drafting of the Comprehensive Annual Financial Report.

**Current Year Status:** Through work performed during fiscal year 2016, prior year material weakness appears to be mitigated.

#### **2015 – 004, State University System Restatement and Financial Statement Preparation Process:**

##### **Type of Finding: Material Weakness in Internal Control over Financial Reporting**

**Condition:** In performing the Fiscal Year 2015 audit of the State's CAFR, a restatement of beginning net position was required for the State University System in the CAFR to correct errors that were not noted or corrected in the 2014 CAFR. In addition, the detail for the restatement supported \$176 million but the actual restatement on the financial statements was only \$169 million.

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### ***Section III – Prior Year Financial Statement Findings***

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**Recommendation:** We noted that some policies, procedures and processes were implemented from our 2014 material weakness over financial reporting. While we recognize that some improvements were made from the fiscal 2014 audit and there were not as many adjusting entries in the current year audit when compared to 2014, we recommend that the DOA and State University System continue to re-evaluate and improve the process by which financial information from the State University System is obtained and recorded for inclusion in the CAFR. First, all universities should obtain a comprehensive general ledger system (see finding 2015-005 below). The DOA and the State University system should continue to mutually agree on deadlines for submission of complete financial statements, including component units, with all eliminations made, on the State's timeline to meet its statutory requirements. Secondly, we also recommend that the DOA and the State University System agree upon an appropriate threshold to record adjustments to numbers already submitted to the DOA to ensure that both the DOA and State University System are presenting the same financial information for a given fiscal year end. Lastly, absent audits for all universities, DOA should share the final consolidating information with the universities so that the universities can certify that complete and accurate data is being reflected in the CAFR so that all parties take appropriate ownership.

**Current Year Status:** Through work performed during fiscal year 2016, prior year material weakness appears to be mitigated.

#### **2015 – 005, State University System General Ledger**

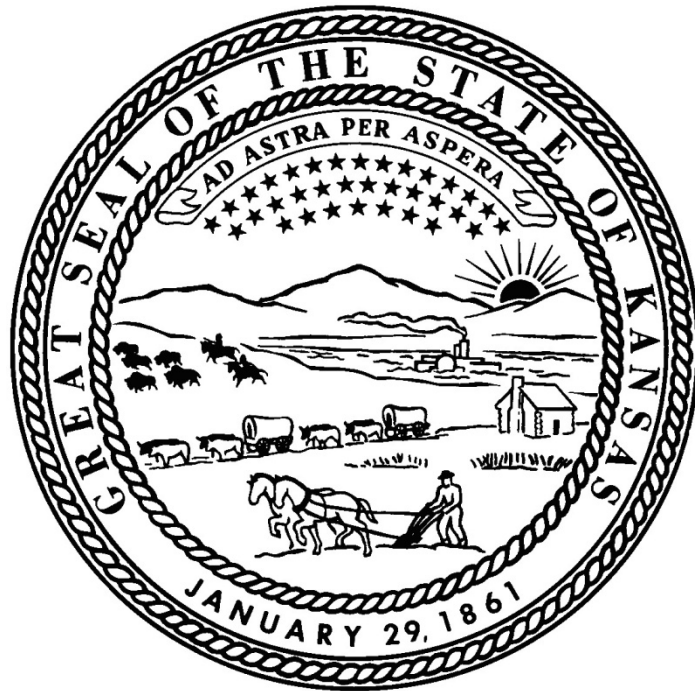
##### **Type of Finding: Material Weakness in Internal Control over Financial Reporting**

**Condition:** In performing the fiscal year 2015 audit of the State University System column of the State's CAFR, we noted that certain universities did not have a comprehensive automated general ledger system to track and account for fiscal transactions. Those universities included University of Kansas Medical Center (KUMC) and Fort Hays State University (FHSU). In addition, we noted that the current general ledger systems for two schools – Kansas State University (KSU) and Pittsburg State University (PSU) – were either dated or did not capture all financial activity. In order to capture the financial activity for the financial statements, some of the universities had to review bank statement activity for the year and capture the information into excel spreadsheets. Then, accrual based adjustments were posted to these excel spreadsheets. For others, large adjustments for material activity had to be made outside of the general ledger system. (Excel workbook). These processes provide opportunities for errors and misstatements to occur.

**Recommendation:** We recommend the State Universities noted above implement a comprehensive automated general ledger system to account for fiscal transactions. This will help to ensure all fiscal transactions are appropriately tracked and accounted for.

**Current Year Status:** Through work performed during fiscal year 2016, prior year material weakness appears to be mitigated.





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